

**REPORT ON REVIEW
OF
SELECTED ACTIVITIES AT CERTAIN LOCATIONS
BUREAU OF INDIAN AFFAIRS
DEPARTMENT OF THE INTERIOR
OCTOBER 1959**



**UNITED STATES GENERAL ACCOUNTING OFFICE
JULY 1960**

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

JUL 7 - 1960

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, October 1959. Our comments on matters which could be resolved by area officials were included in local reports issued by our regional managers to the applicable area directors for corrective action. A summary of these local reports was issued to the Commissioner of Indian Affairs on July 30, 1959 (B-118601).

This report contains our findings and recommendations on departmental or Bureau-wide policy matters for which corrective action should be taken or considered by you or the Commissioner. Three of the findings were included in reports previously issued by our Office, as indicated in this report, but are being repeated because corrective action was not taken.

The principal matter discussed in this report relates to the reduction which could be made in the Bureau's administrative costs if lessee companies would prepare and distribute royalty checks to competent Indians. Other findings discussed in this report relate to the practice of using Bureau employees to assist in establishing rents for Government quarters they occupy and to the need to improve controls over funds advanced under educational contracts. The matters included in the report were discussed with area officials during the review and in several cases were also discussed with Washington Office officials.

We wish to acknowledge the consideration and cooperation given to our representatives at each of the locations visited. We shall be pleased to discuss any of our comments in greater detail with you or members of your organization.

B-114868

Your comments and advice on action taken on the recommendations made will be appreciated.

Sincerely yours,

A. T. Samuelson
Director, Civil Accounting
and Auditing Division

The Honorable
The Secretary of the Interior

Enclosure

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REPORT ON REVIEW

OF -

SELECTED ACTIVITIES AT CERTAIN LOCATIONS

BUREAU OF INDIAN AFFAIRS

DEPARTMENT OF THE INTERIOR

OCTOBER 1959

GENERAL COMMENTS

The General Accounting Office has made a review of selected activities of the Bureau of Indian Affairs, 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 October 1959 and was made at Washington, D.C., at 6 of the 10 area offices, and at 13 selected agency and area field offices of the Bureau.

The review included examinations of the Bureau's administration of individual Indian money accounts, Government housing facilities, educational contracts, and credit activities. We made such tests of financial transactions as we deemed appropriate.

The review disclosed certain matters and deficiencies for which we believe corrective action should be taken by the Secretary of the Interior and the Commissioner of Indian Affairs and other deficiencies that are within the authority and responsibility of the Bureau's area directors to correct.

Our comments on deficiencies which area directors could correct were included in local reports issued by our regional managers to the applicable area directors. Copies of these local reports were sent to the Commissioner, and a summary of these local

reports was the subject of our report to the Commissioner on July 30, 1959 (B-118601). In addition, on May 19, 1960, we issued to the Commissioner a local report on the findings disclosed by our review of the Washington Office.

Findings and recommendations relative to departmental or Bureau-wide policy for which corrective action should be taken or considered by the Secretary and Commissioner are discussed in this report. Three of the findings were included in reports previously issued by our Office, as indicated in this report, but are being repeated because corrective action was not taken on these findings.

FINDINGS AND RECOMMENDATIONS

BUREAU'S ADMINISTRATIVE COSTS COULD BE REDUCED IF LESSEE COMPANIES PREPARED AND DISTRIBUTED ROYALTY CHECKS TO COMPETENT INDIANS

The Bureau could reduce its administrative costs if arrangements could be made to have lessee companies prepare and distribute royalty checks to competent Indian landowners.

As part of its responsibility for the management of Indian trust property, the Bureau executes oil and gas leases on Indian lands and administers the distribution of revenues from these leases. At June 30, 1959, there were over 3,800 active oil and gas leases on individually owned (allotted) lands in the Anadarko Area. During fiscal year 1959, over \$2,012,000 in royalties, bonuses, and related payments was received from these leases for distribution to Indian landowners.

Our review disclosed that about 70 percent of the almost 1,000,000 acres of individual Indian lands under the Bureau's supervision in the Anadarko Area was in multiple ownership. Also, our selective review of 71 oil and gas leases disclosed that 213, or 85 percent, of the total 249 individual owners of the lands involved had blanket authorization for disbursement of their funds. Under this authorization the Indian owners can receive their funds without request or additional Bureau approval because they are considered competent or capable of managing their trust income without supervision.

The multiple Indian heirship interests in the leases result in considerable administrative work by the Bureau because lessee companies normally prepare a monthly check for the royalties.

The Bureau must make frequent elaborate computations and entries to record the receipt and disbursement of the lease revenues to each Indian owner based on his fractional interest in the land.

To illustrate the considerable amount of administrative work that the Bureau must perform, on one of the leases we reviewed there were 69 Indians who jointly owned the land. Because of the multiple heirship interest in this lease, the fraction applied to the total royalties received for the month had a common denominator of 1,036,800. One of the owner's fractional interest in the land was $\frac{1,200}{1,036,800}$ and, when this fraction was applied to the total royalties received for that month, the owner received 10 cents. On another lease reviewed, royalty income of \$3.81 was received for distribution to the 43 individuals owning fractional interests in the lease. All owners who received income received less than 1 dollar, and 25 individuals received less than 10 cents. After making such elaborate computations, the Bureau then records the amounts computed for each Indian's share to the appropriate individual Indian money (IIM) accounts. The funds are held in trust by the Bureau for the benefit of the Indians and are administered in a manner similar to a commercial banking operation. Many of the oil and gas payments are distributed to the Indians within a short time after they are credited to their accounts. Numerous entries and related administrative work are required to credit the royalties in the IIM accounts and to record subsequent disbursements. Moreover, the cost of administering the oil and gas leases will become increasingly difficult and costly as the number of heirs increases.

We noted that the lessee companies have been sending royalty checks to individual Indians of the Five Civilized Tribes of Oklahoma since September 1951. These direct payments are being made to those Indians who the Muskogee Area Director has determined do not need supervision over their lease revenues. As a result of using the direct payment method for the Five Civilized Tribes, the Bureau estimates about a \$44,000 annual reduction in personnel costs for maintaining the IIM accounts, in addition to other savings in related supervisory and administrative costs.

In recognition of the benefits derived from direct lease payments, the Bureau had 25 CFR 172 amended in December 1954 to allow such payments to other Indians. However, because of the objections of the Geological Survey, direct payment procedures were not put into effect. We were advised by the Bureau that the Survey objected to the implementation of direct payments because it believed that it could not carry out its responsibility under 25 CFR 172 for determining and recording royalties due and paid unless the payments by the lessee companies were transmitted through the Survey.

We were advised that the Secretary of the Interior was considering the Bureau's request made in April 1956 that direct payments be allowed and that the Geological Survey be relieved of its responsibility for determining that royalties accruing to the benefit of the Indians have been paid.

We believe that a procedure providing for lessee companies to prepare and distribute royalty checks to competent Indians, as

is being done for members of the Five Civilized Tribes, would effect economies in the Bureau. To overcome the objections raised by the Geological Survey regarding its inability to determine whether the Indian landowners are being paid royalties properly if lessee companies do not submit the royalty checks to the Survey, we suggest that the lessee companies be requested to transmit to the Survey, along with the production reports, a listing of the checks issued for each lease.

Recommendation to the
Secretary of the Interior

To effect economies in the Bureau's administration of Indian lands, we recommend that the Secretary require the Commissioner to make arrangements to have lessee companies prepare and distribute individual royalty checks to competent Indians.

AREA EMPLOYEES ASSISTED IN ESTABLISHING RENTS
FOR GOVERNMENT QUARTERS THEY OCCUPY

At four field locations, Aberdeen Area employees on the Quarters Evaluation Boards had assisted in evaluating and establishing rental rates for the Government housing they occupy. This practice is contrary to regulations prescribed by the Bureau of the Budget, the Department of the Interior, and the Bureau.

Bureau of the Budget Circular A-45 (Revised), dated June 3, 1952, which establishes a rent policy for quarters supplied to Federal employees, states that in no event should the rental appraisals be made by residents in the housing under consideration. In addition, both the Department of the Interior's Manual of Allowances for Quarters, Subsistence, and Services (sec. 2(a)) and the Indian Affairs Manual (43 IAM 503.01) state that an individual occupying quarters should not serve as a member of the Board during such time as the Board is recommending rental rates for the quarters he occupies. The Indian Affairs Manual states also that only one member serving on the Board may be an occupant of Government quarters whenever possible.

As a result of our fiscal year 1958 review in the Aberdeen Area, we reported to the Aberdeen Area Director on January 16, 1959, that at the Fort Berthold, Pierre, and Pine Ridge agencies and at the Flandreau School we found that 2, 1, 3, and 3 Board members, respectively, had assisted in evaluating and establishing rental rates for the Government quarters they occupy. In replying to this matter, the Aberdeen Area Director stated that private housing was not available at most agencies and that in most

instances it was impossible to have two people who are not occupants of Government quarters serve on evaluation boards. A responsible official in Washington stated also that it was not practicable to get independent appraisals because of the remoteness of the quarters in the Aberdeen Area.

We previously reported this matter covering the Aberdeen Area as well as other areas to the Commissioner of Indian Affairs on May 23, 1957, in our report on the Bureau's administration of Government housing facilities, December 1956 (B-118601). We recommended that the Commissioner require the area directors to comply with the appropriate manual provisions and that the manual provisions be revised to specifically prohibit occupants of Government quarters in the local area under survey from serving on the Board. We stated also that personnel from the area office or other Bureau offices could be used for evaluation purposes and that consideration should be given to obtaining the assistance of private citizens with knowledge of local real estate conditions, wherever appropriate. In response to this matter, the Department advised us that Bureau quarters were generally located in remote sections where assistance of private citizens with knowledge of real estate conditions was not available and, therefore, it is necessary in some instances that personnel occupying these quarters be utilized on the local Evaluation Board. The Department advised us also that, if personnel from the area or other Bureau offices made the evaluations, the cost of travel and per diem incurred would more than offset any possible increased revenue to the Government from quarters rental.

With respect to using private appraisers for establishing rents, we believe that an independent appraiser can be hired without incurring excessive costs from the comparable quarters communities used as a basis for establishing Government rentals. For example, the town of Pipestone, Minnesota, the comparable community for the Flandreau School, has a population of 5,200 and is only 18 miles from the school. In addition, an official of the Bureau of the Budget stated that other agencies which have similar problems use independent appraisers.

We still believe that objectivity in making rental appraisals is difficult to maintain when members of the local evaluation boards appraise the quarters they occupy. Also, we believe that, unless special exemptions are authorized, compliance with the provisions of Bureau of the Budget Circular A-45 (Revised) is mandatory.

Recommendations to the
Secretary of the Interior

To provide impartial appraisals for establishing rentals for Government quarters, we recommend that the Secretary specifically prohibit occupants of Government quarters from serving on the Board evaluating the quarters they occupy. Personnel from the area office or other Bureau offices could be used for evaluation purposes. We recommend also that serious consideration be given to obtaining, whenever necessary, the assistance of private citizens with knowledge of local real estate conditions.

If the Department does not accept our recommendations, we believe that it should obtain from the Bureau of the Budget specific exemption from the applicable provisions of Circular A-45 (Revised).

INADEQUATE CONTROL OVER
UNEXPENDED EDUCATIONAL CONTRACT FUNDS

Our review disclosed that educational contracts do not always provide for refund or other disposition of the unexpended balance of Government funds advanced to States or educational institutions. Moreover, the Bureau does not maintain accounting control over funds advanced under these contracts.

The Bureau has Indian educational programs which are authorized by various acts, including the Johnson-O'Malley Act of April 16, 1934, as amended (25 U.S.C. 452). This act authorizes the Secretary of the Interior to contract with any (1) State or its political subdivision, (2) State university, college, or school, and (3) State or private corporation, agency, or institution, for the education of Indian children and adults.

In the Phoenix Area, the Bureau has entered into a Johnson-O'Malley contract with the University of Utah to provide a special program of education and training for the adult members of the mixed-blood group of Utes from the Uintah and Ouray Reservation. The Bureau's contract with the University for fiscal year 1958, contract 14-20-450-1394, was in the amount of \$87,133. A carry-over of \$39,154 from the fiscal year 1957 contract increased the funds available to the University for 1958 to \$126,287. The contract expired on June 30, 1958, and our review showed that the University had an unexpended balance of about \$37,000. However, under the terms of the contract the University was not required to refund or apply the unused funds to the subsequent year's program.

The Phoenix Area Director of Schools stated that the excess would be applied to the subsequent year's program even though the contract terms did not so provide.

Our selective review in Washington, D.C., of public school contracts covering the education of Indian children in five States disclosed that these contracts also did not require the refund or application of unused contract funds to the next year's program.

The Indian Affairs Manual (42 IAM 5.2.3) does not provide for an account for advances made under educational contracts. We have been informed by officials of the Branch of Budget and Finance in the Bureau's Washington Office that payments under these contracts are recorded as expenditures rather than as advances. Consequently, there is no accounting control over unexpended balances of contract funds.

This matter of inadequate control over unexpended educational contract funds was previously brought to the attention of the Commissioner of Indian Affairs in our report dated August 13, 1957, on the administration of educational activities by Bureau of Indian Affairs, Department of the Interior, December 1956 (B-118601). Our comments in the report were based on a review of several Johnson-O'Malley contracts with States and educational institutions, including the fiscal year 1956 and 1957 adult education contracts with the University of Utah in the Phoenix Area. We recommended that the Commissioner require that all public school and adult educational contracts contain provisions for refund or other appropriate disposition of unexpended advances. We recommended also that all amounts advanced under these contracts be accounted

for appropriately as advances on the books of account until the costs are determined.

In reply to our previous report, the Department advised us on June 25, 1958, that the unused funds were retained by the States to meet school needs at the opening of the following school term and that no objection was raised by the Bureau because it was recognized that many States were inconvenienced occasionally by the unavoidable delays in completing contracts and providing funds thereunder. The Department stated that it was the Bureau's policy and practice, and is now an Indian Affairs Manual requirement, to apply the unused funds, through the budget process, in reducing the need under the following year's contract.

When we discussed this matter with a responsible official in the Branch of Education in Washington, D.C., he stated, in regard to public school contracts, that the provision for application of unused funds in the succeeding year was required to be included in each State plan. These State plans which provide the base upon which funds are requested for a State are formulated by representatives of both the State and the Bureau and are approved by the Commissioner. This official stated also, in regard to adult educational contracts, that a provision for refund of the unused funds was included in the contract covering the final year program operations.

Although it is the Bureau's practice to have unused funds applied to the next year's program, we believe the Government's right to these unexpended balances should be expressly stated in all public school and adult educational contracts. Furthermore,

we do not believe that the Bureau's method of treating these contract advances as expenditures provides adequate accounting control over the Government's interest in the unused funds.

Recommendations to the
Secretary of the Interior

To protect the Government's interest and to provide adequate accounting control over funds advanced to educational institutions, we recommend that the Secretary require that (1) all future educational contracts contain provisions for refund or other appropriate disposition of unexpended advances and (2) all amounts advanced under contracts be accounted for appropriately as advances on the Bureau's accounting records until the actual costs are determined.

SOME INDIAN CREDIT ASSOCIATIONS NOT PARTICIPATING
IN THE COSTS OF ADMINISTERING THEIR LOAN PROGRAMS

Some Indian credit associations do not contribute to defraying the Bureau's cost of administering the associations' loan programs.

In the Phoenix Area, for example, the Hopi Indian Credit Association conducts a relending program for the Hopi Indians. At the time of our review, the Association had received \$100,000 in loans from the Bureau's revolving loan fund. The Association used these funds to make loans to individual Association members for such purposes as education; improvement of business or farm property; and repair, purchase, or construction of homes. Administration of the Association's loan program is handled by a Bureau loan examiner and a clerk at the Hopi Agency. These employees' salaries and expenses, which amounted to \$10,199 for the fiscal year 1958, were paid from Bureau appropriated funds. A report on the Association as of March 31, 1958, by a certified public accounting firm showed retained earnings of \$1,301. None of this amount, however, was being used to help defray the Bureau's expenses for administering the loan program.

The policy of the Bureau regarding financial assistance by tribes for their credit programs administered by the Bureau is set forth in 47 IAM 1.2 of the Indian Affairs Manual. This provision states that tribes with available funds are required to pay the salaries and expenses of reservation employees working on credit matters if they wish to conduct credit programs. Moreover, the Hopi Indian Credit Association's Declaration of Policy and Plan of

Operation authorizes the Bureau to employ clerical assistance, when necessary, and to pay for it from the Association's funds. A similar authorization was included as a condition of a modification of the Association's loan agreement contract with the United States approved by the Bureau on May 20, 1958.

The Hopi Agency Superintendent agreed with our findings and stated that an attempt would be made to have the Association contribute toward the cost of administering the program. However, when we discussed this matter with the Phoenix Area Director, he stated that the Hopi Credit Association is not a tribe and therefore the provision in 47 IAM 1.2 of the Indian Affairs Manual is not applicable.

Our subsequent review at the Washington Office disclosed that the Phoenix Area Director requested guidance from the Washington Office regarding the financing of the clerical position required in administering the Hopi Indian Association's credit program. In a reply dated March 30, 1959, the Assistant Commissioner (Administration) called attention to the Bureau's policy of requiring organizations that have available funds to pay the salary and expenses of reservation employees working on credit matters. The Assistant Commissioner's reply stated also that, in view of the Area's comments on the Hopi Association's earnings and the provisions of condition 5 of the loan contract modification of May 20, 1958, and the Association's plan of operation, there appeared to be little justification for not having the clerical position financed by the Association. The Area was directed to have the

costs of the clerical position paid from earnings of the Association at the earliest practicable date. Review of subsequent correspondence from the Area indicates that arrangements were being made to comply with these instructions.

Our review disclosed also that the Anadarko Area Office was receiving collections on outstanding loans and was maintaining records at Government expense for 10 Indian credit associations that have discontinued making loans. These credit associations had received loans from the Bureau's revolving fund and had engaged in a program of relending to their members. The Area Office charged these associations a service fee for maintaining the required records while they were active in making loans. However, since the associations have discontinued making loans, no service fees are being charged. The administrative costs are paid from Bureau funds even though some of the associations have accumulated earnings from their operations. For example, at June 30, 1958, statements for the Kaw Indian Credit Association and the Apache District Indian Credit Association showed accumulated earnings of about \$1,700 for each association.

Tribal resolutions on terminating the revolving credit programs of the Ponca, Kaw, and Walters District Indian Credit Associations specifically authorize the Bureau to pay, from collections on loans or other associations' funds, necessary clerical and administrative expenses to maintain the required records and loan security documents, and to effect collection on loans. We believe that charging a service fee would be consistent with the charges made while the associations were active in making loans.

Moreover, this would be in accord with the Bureau's policy of having tribes assist in financing the costs of their credit programs.

Anadarko Area officials agreed that a service charge should be made for maintaining the books of accounts for these Indian credit associations. However, the officials did not state whether they would make such a charge.

Recommendations to the
Commissioner of Indian Affairs

To have the Indian credit associations share in the financial responsibility for conducting their credit programs, we recommend that the Commissioner take steps to have all credit associations that have retained earnings pay, or share to the extent they can, the cost of administering their loan programs. We recommend also that all area directors be instructed that the policies set forth in 47 IAM 1.2 of the Indian Affairs Manual apply to Indian credit associations and organizations as well as to Indian tribes.

PROVISION FOR BAD DEBTS
NOT ESTABLISHED AT AREA OFFICES

The accounts and financial statements of the Bureau's area offices do not include a provision for doubtful and uncollectible loans made from the Bureau's revolving fund, although a substantial amount of such loans are in default or delinquent in some areas. However, the Bureau includes an over-all provision for doubtful and uncollectible loans on the reports it issues.

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

Our review disclosed that the Juneau Area Office had not provided an allowance for doubtful and uncollectible revolving fund loans made in Alaska even though a substantial amount of such loans were in default or were delinquent at June 30, 1959. To illustrate, of the Bureau's total of \$9,515,749 outstanding revolving fund loans at June 30, 1959, \$5,303,027, or nearly 56 percent, was for loans made in Alaska. Of this amount, \$4,376,942 was outstanding on loans made to four Alaska native village associations for acquisition and operation of salmon canneries and for relending to Association members. The Bureau reported that the total amount of loans delinquent at June 30, 1959, was \$574,764, with loans made in Alaska accounting for \$372,056 of this amount. The delinquent

loans in Alaska were concentrated in the four native village associations which were delinquent in payments, including interest, totaling \$324,648.

The ultimate collectibility of some of these Alaska loans is questionable. The Bureau's Annual Credit Report for fiscal year 1959 stated that the Bureau was faced with a very serious problem on some revolving fund loans made in Alaska and probably would suffer large losses on these loans. These credit problems are mainly in connection with the loans to the four village associations.

We commented on the lack of a provision for doubtful and uncollectible revolving fund loans for the Juneau Area in a report issued to the Juneau Area Director on March 5, 1959. In the report, we stated that a provision for bad debts had not been established even though the Indian Affairs Manual (42 IAM 5.2.3 B(2)) requires such a provision as a valuation reserve to show the estimated amount of uncollectible loans outstanding which were financed from the revolving fund. An Area official informed us that a provision for uncollectible loans account had not been established because the Washington Office had not issued specific instructions for its use.

In replying to our report, the Juneau Area Director referred to a letter dated September 22, 1958, from the Chief of the Bureau's Washington Finance Section concerning this matter. The letter stated that provision for possible losses on loans was established by the Washington Office's Branch of Credit and is shown on the Bureau-wide Statement of Financial Condition (Standard Form 220) in accordance with United States Treasury Department

regulations. Consequently, since the determination and reporting are effected centrally, there is no requirement for accounting stations to report balances in general ledger account 1027, Provision for Bad Debts--Loans. The letter stated also that reserve amounts applicable to the Juneau Area Office were shown in the Bureau's Annual Credit Report--Supplemental.

We recognize that an allowance for possible losses on loans is reported on a Bureau-wide basis; however, we believe that the accounts and financial statements of the area offices which are responsible for the administration of activities in each area should properly disclose the status and results of their revolving loan program operations.

Recommendation to the
Commissioner of Indian Affairs

To provide for the proper valuation of revolving fund loans receivable in each area's accounts and statements, we recommend that the area directors be required to record in their accounts and to report in area statements an allowance for doubtful and uncollectible revolving fund loans receivable.