

15

FILE



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

**REVIEW OF
FUR SEAL OPERATIONS
AND
ADMINISTRATION OF THE PRIBILOF ISLANDS,
BUREAU OF COMMERCIAL FISHERIES,
UNITED STATES FISH AND WILDLIFE SERVICE,
DEPARTMENT OF THE INTERIOR**



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

JUNE 1961

745648/087888

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

**REVIEW OF
FUR SEAL OPERATIONS
AND
ADMINISTRATION OF THE PRIBILOF ISLANDS
BUREAU OF COMMERCIAL FISHERIES
UNITED STATES FISH AND WILDLIFE SERVICE
DEPARTMENT OF THE INTERIOR**



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

JUNE 1961



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

B-114841

JUN 20 1961

Honorable Sam Rayburn
Speaker of the House of Representatives

Dear Mr. Speaker:

Herewith is our report on the review of fur seal operations and administration of the Pribilof Islands, Bureau of Commercial Fisheries, United States Fish and Wildlife Service, Department of the Interior.

Our review disclosed that the sealing operations of the Bureau of Commercial Fisheries and the auction proceedings conducted by the commercial fur processor are carried out in an efficient manner.

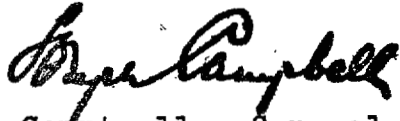
In computing the amounts to be paid to the State of Alaska for fiscal years 1959 and 1960 under the provisions of section 6(e) of the act of July 7, 1958 (the Alaska Statehood Act, 72 Stat. 339), the Department did not provide for the recovery of the Government's investment in certain facilities in use at July 1, 1958. We believe that section 6(e) contemplates that all costs should be included in the computation. However, the Department does not agree that this recovery should be made in view of the liberal attitude shown the State by the Congress in recent legislation. Therefore, we are recommending in this report that the Congress clarify the intent of section 6(e) insofar as the recovery of such costs is concerned.

Our review disclosed that the continued rise in the native population of the Pribilof Islands is increasing certain economic problems because the sealing operations, the only substantial source of livelihood for the natives, leveled off in volume years ago. The Department advised us that it is taking action to relocate and rehabilitate some of the families. In this report we are recommending certain actions to be taken by the Director, Bureau of Commercial Fisheries, to reduce the cost of the sealing operations. These actions contemplate that through better planning improved utilization of the native manpower will decrease the number of other employees imported during each sealing season.

B-114841

This report is being sent today to the President of the Senate. A copy is also being sent to the President of the United States and the Secretary of the Interior.

Sincerely yours,

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

Comptroller General
of the United States

Enclosure

C o n t e n t s

| | <u>Page</u> |
|--|-------------|
| GENERAL COMMENTS | 1 |
| SUMMARY OF PRINCIPAL FINDINGS AND RECOMMENDATIONS | 4 |
| ORGANIZATION AND MANAGEMENT | 8 |
| FINANCING | 10 |
| All costs not considered in computing amounts due the State of Alaska | 11 |
| Recommendation to the Congress | 15 |
| Need for additional accounting procedures for Pribilof Islands operations | 15 |
| Recommendation to the Director, Bureau of Commercial Fisheries | 18 |
| FUR SEAL OPERATIONS | 19 |
| Sealing | 19 |
| Processing and sale of skins | 20 |
| By-product operations and sales | 22 |
| ADMINISTRATION OF THE PRIBILOF ISLANDS | 24 |
| Need for action to resolve growing economic problems and for better utilization of native manpower | 25 |
| Recommendations to the Director, Bureau of Commercial Fisheries | 28 |
| SCOPE OF REVIEW | 29 |
| APPENDIX | |
| History, legislation, and treaties | 31 |

REPORT ON REVIEW
OF
FUR SEAL OPERATIONS
AND
ADMINISTRATION OF THE PRIBILOF ISLANDS
BUREAU OF COMMERCIAL FISHERIES
UNITED STATES FISH AND WILDLIFE SERVICE
DEPARTMENT OF THE INTERIOR

GENERAL COMMENTS

The General Accounting Office has made a review of the fur seal operations and administration of the Pribilof Islands by the Bureau of Commercial Fisheries, United States Fish and Wildlife Service (FWS), Department of the Interior. The review 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 scope of our review is described on page 29 of the report.

The Pribilof Islands are a group of five volcanic islands in the Bering Sea some 300 miles off the mainland of Alaska. Two of the islands, St. Paul and St. George, are the home of about 600 Aleuts and the breeding grounds of the Alaska fur seal herd. The other three islands are small and relatively unimportant. Under the act of February 26, 1944 (16 U.S.C. 631f), these islands were declared a special reservation for Government purposes and the Secretary of the Interior was given authority to furnish the necessities of life to the native inhabitants of the islands and to provide for their comfort, maintenance, education, and protection.

The fur seal herd is protected under the act of February 26, 1944, and the Interim Convention on Conservation of North Pacific Fur Seals, which became effective on October 14, 1957, after its execution by the Governments of Canada, Japan, the Union of Soviet Socialist Republics, and the United States.

Responsibility for the administration of the Pribilof Islands and the management of the fur seal herd has been assigned to the Bureau of Commercial Fisheries, which was established in the United States Fish and Wildlife Service by section 3 of the act of August 8, 1956 (16 U.S.C. 742b). The work is financed by appropriation of a portion of the proceeds of the sale of fur sealskins. The skins are obtained at the Pribilof Islands during the annual summer visit of the seals by selective killing of surplus animals. Under the Interim Convention of 1957, the Governments of Canada and Japan each receive 15 percent of the skins taken each season. After preliminary processing, the United States skins are shipped to a commercial processor for dressing and dyeing. The finished skins are sold by the processor at public auction, with the Government and the processor sharing in the proceeds.

According to the records of United States Fish and Wildlife Service, the United States Government has realized a total of \$28,482,829 during the period from 1911 through fiscal year 1960, from the sale of 1,790,477 sealskins and after deduction of all costs of administration, operation, and processing. Beginning with fiscal year 1959 and thereafter, however, the State of Alaska receives 70 percent of the net proceeds of sales of Pribilof Island sealskins.

A summary of prior legislation and treaties affecting the fur seal herd is contained in the appendix of this report.

We have given consideration in the report to the comments contained in letters dated July 18, 1960, September 20, 1960, and March 29, 1961, from the Administrative Assistant Secretary of the Interior.

SUMMARY OF PRINCIPAL FINDINGS AND RECOMMENDATIONS

ALL COSTS NOT CONSIDERED
IN COMPUTING AMOUNTS DUE THE STATE OF ALASKA

Our review disclosed that in computing the amounts paid to the State of Alaska for fiscal years 1959 and 1960 under the provisions of section 6(e) of the act of July 7, 1958 (the Alaska Statehood Act, 72 Stat. 339), the Department of the Interior did not provide for the recovery of the Government's investment in certain facilities in use at July 1, 1958, and did not include interest on this investment in the recovery. Also, the computations for these years were made on the basis of total obligations incurred against the respective annual appropriation; however, the adjustments made during fiscal year 1960 to certain obligations incurred in fiscal year 1959 were not considered in the computation for fiscal year 1960.

The Department agrees that, where differences exist between the amount deducted in settling with the State of Alaska and the actual expenditures incurred in administering the program, an adjustment should be made in the next settlement with the State. However, the Department does not agree that the Government's investment in the facilities in use at July 1, 1958, should be included in the computation of the amount to be paid to the State in view of the liberal attitude shown the State by the Congress in recent legislation. Since the Department does not agree with our view that the law contemplates the recovery of all costs, we are recommending that the Congress clarify the intent of section 6(e) of the act of July 7, 1958. (See pp. 11 to 15 for additional details.)

NEED FOR ADDITIONAL ACCOUNTING PROCEDURES
FOR PRIBILOF ISLANDS OPERATIONS

At the time of our initial review, the Bureau's accounting system was primarily on an obligational basis and did not supply management with needed cost data. The fixed assets in use in the Pribilof operations were not under accounting control, and appropriate costs had not been assigned to the inventory of sealskins in storage and in process or awaiting sale at the fur processor's plant. Our review also disclosed a number of accounting weaknesses relating to the issuance of and accounting for supplies.

The Department advised us that the Bureau was installing an accrual-type accounting and reporting system which would provide cost data and adequate accounting control over the operations of the Bureau, including its inventories and related storehouse operations. Our further review and discussions with Bureau officials disclosed that there is some question whether provision will be made for the system to provide certain data desirable for management purposes. Therefore, we are recommending that the Director provide in the new accounting system (1) for the depreciation of all fixed assets in use in the Pribilof operations and (2) for the assignment of appropriate costs to the inventory of sealskins in storage and in process or awaiting sale at the fur processor's plant. (See pp. 15 to 18 for additional details.)

NEED FOR ACTION TO RESOLVE GROWING ECONOMIC PROBLEMS
AND FOR BETTER UTILIZATION OF NATIVE MANPOWER

The continued rise in the native population of the Pribilof Islands is increasing certain economic problems because the volume of sealing operations, the only substantial source of livelihood

for the natives, leveled off years ago. It is our opinion that the native manpower can be better utilized which will reduce the cost of the sealing operations by decreasing the number of employees imported each year during the sealing season.

In commenting on the need to establish a relocation and rehabilitation program, the Department advised us on September 20, 1960, of certain action being taken to cope with the increasing Aleut population. However, we are recommending that the Director, Bureau of Commercial Fisheries, take certain steps to increase the utilization of Pribilof Islands natives and to decrease the number of employees imported during the sealing season. (See pp. 25 to 28 for additional details.)

MISCELLANEOUS SUPPLY AND FISCAL WEAKNESSES

On December 10, 1959, we issued a report to the Regional Director, Pacific Region. This report included our comments and recommendations on the following weaknesses:

1. Procurement actions are not based on reliable requirement information.
2. Cost information for reported inventory transactions is insufficient.
3. Accounting controls over reimbursable issues need to be strengthened.
4. Sufficient information is not provided in survey reports.
5. Adequate instructions for computing payrolls have not been issued.
6. Control over disbursing functions needs to be improved.

By letter dated March 14, 1960, the Regional Director advised us that he appreciated our review and would take corrective action on the matters covered by our report.

The Department advised us on July 18, 1960, that appropriate corrective action was being taken on these matters and that the accounting and fiscal controls were being implemented in the Bureau of Commercial Fisheries' new accounting system which went into effect on July 1, 1960.

ORGANIZATION AND MANAGEMENT

The Department of the Interior, through the United States Fish and Wildlife Service, Bureau of Commercial Fisheries, and subordinate organizational units, administers the North American fur-seal industry. This activity involves the following programs:

1. Planning and directing the harvest, preparation, and disposal of the annual crop of furs and the manufacture and sale of by-products.
2. Providing for the care, shelter, welfare, and employment of the permanent Aleut residents of the Pribilof Islands communities of St. Paul and St. George.
3. Administering the Pribilof Islands reservation, including construction, operation, and maintenance of buildings and facilities, and operation and maintenance of equipment and supply vessels for transportation of personnel and cargo to and from the islands.
4. Conducting biological research and manipulating the killing practice to obtain optimum sustained yield and conserve the resource.

The management of the Government's sealing operations at December 31, 1960, consisted of the following:

| <u>Name</u> | <u>Title</u> |
|--|--|
| Fred A. Seaton (Replaced by Stewart L. Udall, appointed January 21, 1961) | Secretary of the Interior |
| Elmer F. Bennett (Replaced by James K. Carr, appointed January 30, 1961) | Under Secretary of the Interior |
| Ross L. Leffler (Replaced by Frank P. Briggs, appointed March 24, 1961) | Assistant Secretary, Fish and Wildlife Service |
| D. Otis Beasley | Administrative Assistant Secretary |
| Arnie J. Suomela (Replaced by Clarence F. Pautzke, appointed April 5, 1961) | Commissioner of Fish and Wildlife Service |

| <u>Name</u> | <u>Title</u> |
|--------------------|--|
| Donald L. McKernan | Director, Bureau of Commercial Fisheries |
| S. J. Hutchinson | Regional Director, Region No. 1, Seattle, Washington |

Staff supervision, international aspects of the program, and relations with the fur-processing contractor are handled by the Bureau's Washington office staff. The administration of the islands, the sealing operations, the manufacture of by-products, and the operation of the supply vessel are supervised by a general manager and a small staff located in the Bureau's Pacific Regional Office in Seattle, Washington. A manager and a resident staff are assigned to each of the islands. The native residents supply the normal work force for operation and maintenance of the villages and the industrial facilities on the islands. During the sealing operations the work force is supplemented by natives from other parts of Alaska.

The employees engaged in the administration of the islands and the sealing operation at July 1, 1960, are summarized as follows:

| <u>Location</u> | <u>Number of employees</u> | | | |
|----------------------|----------------------------|---------------------------|-----------------|--------------|
| | <u>Classi- fied</u> | <u>Unclas- sified</u> | <u>Seasonal</u> | <u>Total</u> |
| Washington | 6 | - | - | 6 |
| Seattle | 7 | 1 | - | 8 |
| St. Paul Island | 10 | 6 | - | 16 |
| Resident Aleuts | - | 98 | 21 | 119 |
| Nonresident Alaskans | - | - | 60 | 60 |
| St. George Island | 5 | - | - | 5 |
| Resident Aleuts | - | 60 | 8 | 68 |
| Nonresident Alaskans | - | - | 10 | 10 |
| Supply vessel | - | <u>14</u> | - | <u>14</u> |
| | <u>28</u> | <u>179</u> | <u>99</u> | <u>306</u> |

Biological research relating to fur seals is conducted by a marine mammal laboratory in Seattle, Washington.

FINANCING

The receipts from the sales of sealskins and other products of the Pribilof Islands operations are deposited in a separate account entitled the Pribilof Islands fund. Portions of these receipts have been made available by the Congress for the costs of administration of the Pribilof Islands and the sealing operations and the management and investigations of fish and wildlife resources of Alaska. Although the Bureau of Commercial Fisheries will continue to administer the Pribilof Islands and conduct the sealing operations, the responsibility for management and investigations of fish and wildlife resources was assumed by the State of Alaska in January 1960.

Amounts made available by appropriations for fiscal years 1959 and 1960 are set forth below:

| <u>Activity</u> | <u>Fiscal year</u> | |
|--|--------------------|--------------------|
| | <u>1959</u> | <u>1960</u> |
| 1. To the Bureau of Commercial Fisheries for administration of the Pribilof Islands | \$1,920,053 | \$1,940,000 |
| 2. To the Bureau of Commercial Fisheries for management and investigations of commercial fishery resources of Alaska | 454,621 | 398,000 |
| 3. To the Bureau of Sport Fisheries and Wildlife for management and investigations of sport fishery and wildlife resources of Alaska | <u>454,621</u> | <u>268,000</u> |
| Total | <u>\$2,829,295</u> | <u>\$2,606,000</u> |

The appropriations to the Bureaus for management and investigations of fish and wildlife resources of Alaska were discontinued for fiscal year 1961.

The Bureau's records show that the revenues from the sales of sealskins and other products and the obligations incurred for sealing operations and administration of the Pribilof Islands for fiscal years 1959 and 1960 were as follows:

| | <u>Fiscal years</u> | |
|--|---------------------|--------------------|
| | <u>1959</u> | <u>1960</u> |
| Revenues: | | |
| Sealskins (note a) | \$2,824,332 | \$3,185,584 |
| Blubber oil | 19,261 | 8,301 |
| Carcass oil | 6,068 | 733 |
| Seal meal | <u>34,987</u> | <u>25,787</u> |
| | <u>\$2,884,648</u> | <u>\$3,220,405</u> |
| Obligations: | | |
| Personal services | \$ 975,991 | \$ 989,325 |
| Travel | 22,113 | 29,207 |
| Transportation of things | 27,893 | 40,067 |
| Rents, communication, and utility services | 10,143 | 10,119 |
| Printing and reproduction | 349 | - |
| Other contractual services | 236,720 | 476,088 |
| Supplies and materials | 507,605 | 312,171 |
| Equipment | 11,534 | 20,615 |
| Lands and structures | 8,902 | - |
| Grants, subsidies, and contributions | 33,901 | - |
| Refunds, awards, and indemnities | 54,197 | - |
| Taxes and assessments | <u>3,613</u> | <u>-</u> |
| | 1,892,961 | 1,877,592 |
| Deduct: | | |
| Quarters and subsistence charges | <u>171,055</u> | <u>157,190</u> |
| Total obligations | <u>\$1,721,906</u> | <u>\$1,720,402</u> |

^aRepresents the amount the Government received from sealskin sales after allowable deductions by the fur processor and other minor adjustments.

ALL COSTS NOT CONSIDERED IN COMPUTING
AMOUNTS DUE THE STATE OF ALASKA

Our review disclosed that in computing the amounts paid to the State of Alaska for fiscal years 1959 and 1960 under the

provisions of section 6(e) of the act of July 7, 1958 (the Alaska Statehood Act, 72 Stat. 339), the Department of the Interior did not provide for the recovery of the Government's investment in certain facilities in use at July 1, 1958, and did not include interest on this investment in the recovery. Also, the computations for these years were made on the basis of total obligations incurred against the respective annual appropriation; however, the adjustments made during fiscal year 1960 to certain obligations incurred in fiscal year 1959 were not considered in the computation for fiscal year 1960.

Section 6(e) provides the following method of determining the amount to be paid to the State:

"Commencing with the year during which Alaska is admitted into the Union, the Secretary of the Treasury, at the close of each fiscal year, shall pay to the State of Alaska 70 per centum of the net proceeds, as determined by the Secretary of the Interior, derived during such fiscal year from all sales of sealskins or sea-otter skins made in accordance with the provisions of the Act of February 26, 1944, (58 Stat. 100; 16 U.S.C. Secs. 631a-631q), as supplemented and amended. In arriving at the net proceeds there shall be deducted from the receipts from all sales all costs to the United States in carrying out the provisions of the Act of February 26, 1944, as supplemented and amended, including but not limited to, the costs of handling and dressing the skins, the costs of making the sales and all expenses incurred in the administration of the Pribilof Islands."

The State of Alaska was paid the sums of \$813,919 and \$1,050,002 for fiscal years 1959 and 1960, respectively. The amounts were computed as follows:

| | <u>Fiscal year</u> | |
|--|--------------------|--------------------|
| | <u>1959</u> | <u>1960</u> |
| Receipts from the sale of Pribilof Islands products (see p. 11) | \$2,884,648 | \$3,220,405 |
| Less cost of sealing operations and administration of Pribilof Islands (see p. 11) | <u>1,721,906</u> | <u>1,720,402</u> |
| Net receipts | <u>\$1,162,742</u> | <u>\$1,500,003</u> |
| Proceeds due State of Alaska (70 percent of net receipts) | <u>\$ 813,919</u> | <u>\$1,050,002</u> |

The receipts include the proceeds from the sale of sealskins and the sale of oil and carcass meal.

No provision was made in the computations to amortize the Government's investment in facilities in use at July 1, 1958, and to include the interest thereon as a cost in the nature of a financing charge. The Government facilities in use at July 1, 1958, included the Government-owned dwellings and other facilities on the Pribilofs and the vessel "Penguin II," which is operated by the Bureau of Commercial Fisheries to transport personnel and supplies to and from the Pribilofs. The cost of these assets cannot be readily ascertained from the accounts of the Bureau, and depreciation of these assets has not been recorded. Our review of data available in the Bureau's files indicated that about \$1.5 million had been spent on new facilities from fiscal years 1952 through 1958. Also, the amounts deducted as the cost of the sealing operations and administration of the Pribilof Islands for fiscal years 1959 and 1960 represent the total obligations incurred against the respective annual appropriation. However, in the computation for fiscal year 1960 the adjustments made in that fiscal year for the

differences between the amounts obligated in fiscal year 1959 and the related payments made in fiscal year 1960 were not considered.

The Department agrees that, where differences exist between the amount deducted in settling with the State of Alaska and the actual expenditures incurred in administering the program, an adjustment should be made in the next settlement with the State.

Regarding the amortization of the Government's investment in facilities in use at July 1, 1958, the Department advised us as follows:

"We are of the opinion that to include in the cost of administration of the Pribilof Islands an amortization charge, based upon the Government's investment in assets, which were in existence on July 1, 1958, would be contrary to the policy of the Congress, which has demonstrated a liberal attitude toward the State of Alaska as evidenced by Section 44 of the Alaska Omnibus Act (73 Stat. 151). This Act authorizes transitional grants to the State of Alaska for a five-year period ending June 30, 1964. Funds provided the State, pursuant to the foregoing act, are to enable the President to make grants to assist in financing functions transferred from the Federal Government. Moreover, the Bureau of Commercial Fisheries, pursuant to Section 6(e) of the Alaska Statehood Act (72 Stat. 339) and the Alaska Omnibus Act (73 Stat. 151), has transferred vessels and other assets to the State of Alaska. In view of this liberal attitude shown the State of Alaska by the Congress, we do not believe that an amortization charge should be included in the cost of administration of the Pribilof Islands until the Congress shows a more specific intent to include such charges."

Our reasoning on this matter is based upon the grounds that, while the term "all costs," standing alone, could be the subject of difference of opinion as to its intended scope and meaning, as used in section 6(e) the term is followed by language enumerating particular classes of costs incident to operating the fur and seal industry and expressly stating that the mention of such costs is not to be read as excluding other classes of costs. We believe

that such use of the term reasonably connotes an intent that it be given an unrestricted meaning. Therefore, we conclude that, in computing the net proceeds from the operation of this activity, the law contemplates that there should be included, in addition to the direct costs incurred, all significant indirect costs including amortization of Government fixed assets in use on July 1, 1958, for carrying out the activity together with interest thereon.

Recommendation to the Congress

In view of the difference of opinion between the Department and our Office, insofar as concerns the recovery of all costs in computing the payments due the State of Alaska, we recommend that the Congress resolve the difference by clarifying its intent in the matter.

NEED FOR ADDITIONAL ACCOUNTING PROCEDURES FOR PRIBILOF ISLANDS OPERATIONS

Our review of the accounting system of the Bureau of Commercial Fisheries disclosed the need for additional accounting procedures and for the system to provide certain financial data relating to the operations in the Pribilof Islands for management purposes. Our review disclosed also a number of accounting weaknesses relating to the issuance of and accounting for supplies.

At the time of our initial review, the Bureau's accounting system was primarily on an obligational basis and did not supply management with needed cost data. The fixed assets in use in the Pribilof operations were not under accounting control, and appropriate costs had not been assigned to the inventory of sealskins in storage and in process or awaiting sale at the contractor's

plant. Also, our review disclosed the following weaknesses which indicate the need for additional accounting instructions and, in some cases, the need for strengthening administrative supervision.

1. Nineteen of 22 stock record cards which we examined showed adjustments to bring the records into agreement with the physical inventory taken at the end of calendar year 1958. The inventory count disclosed a net difference of about \$5,300 on these 19 items.

Inaccurate or incomplete stock record cards produce erroneous and misleading information as to the quantities and costs of supplies in stock and those used in the administration of the islands. Periodic physical counts of the supplies on hand and inquiry into the causes of discrepancies disclosed by the counts will permit the proper officers to take corrective action to avoid loss or misuse of Government-owned supplies.

2. Working papers covering the physical inventory taken at the end of 1958 were not available for our review. Officials at St. Paul Island advised us that no procedures for taking the physical inventory had been prescribed.

Procedures should be prescribed for (1) annual physical counts, (2) administrative review of all differences, (3) proper adjustment of records to bring them into agreement, and (4) periodic reconciliation of subsidiary records with related control accounts.

3. A number of other weaknesses--which we reported to the Regional Director, Pacific Region, on December 10, 1959--such as inaccurate stock record cards, insufficient cost information for

reported inventory transactions, inadequate accounting control over reimbursable issues, and insufficient information in survey reports.

- - - -

We believe that an adequate accounting system for the Pribilof Islands operations should provide for accrual accounting and the preparation of periodic reports showing the financial status of the operations at each reporting date and the results of the operations for the period ended on that date.

The Department advised us on July 18, 1960, that the Bureau was installing an accrual-type accounting and reporting system which would provide a monetary record of the Pribilof Islands operations and adequate controls over revenues, expenditures, assets, liabilities, and the Government's investment for all operations of the Bureau. The Department stated in addition that cost accounting was to be installed and would disclose the cost of the various activities on the Pribilof Islands and other Bureau operations and that accounting controls would be provided for inventories and related storehouse operations.

Our further review and discussion with Bureau officials of the new accounting system being installed indicate that there is some question whether provision will be made for depreciation accounting and for assigning costs to the sealskin inventory in storage and in process or awaiting sale at the fur contractor's plant. We believe that the new system should provide such data so that income from the sealing operations can be matched against related costs to disclose the results of operations and provide Bureau

officials and others with a sound basis on which to make management decisions.

Recommendation to the Director,
Bureau of Commercial Fisheries

So that management will have adequate financial data on the Pribilof Islands operations, we recommend that the Director provide in the new accounting system for:

1. The depreciation of all fixed assets used in the Pribilof operations.
2. The assignment of appropriate costs to the inventory of sealskins in storage and in process or awaiting sale at the fur processor's plant.

FUR SEAL OPERATIONS

SEALING

During the summer visit of the fur seal herd to the Pribilof Islands, the Fish and Wildlife Service (FWS) conducts the annual sealing operation. Surplus seals (those not needed for breeding purposes to maintain the size of the herd) are killed and the skins are removed. After preliminary preparation, primarily the removal of the inner coat of blubber and the soaking of the skins in brine, the skins are packed in barrels for shipment to the processor.

The work of killing and skinning is done by the native Aleut residents of the islands. For other operations on the islands, the FWS employs residents of other parts of Alaska and the fur processor assigns certain of its employees for supervision of the work, inspection of the skins, and removal of blubber. At each step in the process, adequate records are made of the number and condition of the skins.

At completion of the island processing, the skins are packed in barrels. The barrels in each lot of 20 barrels contain a uniform number of skins and are serially numbered. To facilitate the division of skins between Canada, Japan, and the United States, Canada and Japan each select three numbers between 1 and 20. From each lot of 20 barrels the barrels bearing the selected numbers are set aside for Canada and Japan.

Distribution of sealskins taken during the 1959 season was as follows:

| <u>Country</u> | <u>Males</u> | <u>Females</u> | <u>Total</u> |
|----------------|---------------|----------------|---------------|
| United States | 21,124 | 19,344 | 40,468 |
| Canada | 4,526 | 4,145 | 8,671 |
| Japan | <u>4,526</u> | <u>4,145</u> | <u>8,671</u> |
| Total | <u>30,176</u> | <u>27,634</u> | <u>57,810</u> |

PROCESSING AND SALE OF SKINS

The processing of the sealskins to a finished state and the sale of the finished skins are done by a processor under the terms of a contract entered into on March 21, 1947, and amended in 1949, 1955, and 1959. The processor handles only sealskins, including those belonging to the United States, Canada, Japan, Union of South Africa, and Uruguay.

Under the terms of a negotiated contract, the processor is required to (1) store, dress, dye, finish, and grade all sealskins delivered to it by the Government, (2) sell finished skins at public auction, (3) make every effort necessary to develop the market for processed sealskins, (4) make available the services of such number of its employees as may be determined by both parties to assist on the islands in preparation of sealskins for shipment to the processor, and (5) to pay to the Department of the Interior within 60 calendar days after each sale an amount equal to the total sales price of all sealskins sold less the processor's participation and other allowable deductions.

The processor's participation in the proceeds of the sale is stipulated in the contract, as amended, to be, for each skin of Alaska Fur Seal quality, an amount equal to 17.5 percent of the average sale price of the skins sold plus \$15 and, for skins of lesser quality (primarily the skins from female seals), varying

amounts depending on the average sale prices of the skins. The term "skins of Alaska Fur Seal quality" refers to skins of high original quality which have been specially processed to produce the most desirable characteristics.

The participation of the Government and the processor in the proceeds of sales in fiscal years 1958, 1959, and 1960 was as follows:

| Fiscal year | Number of skins sold | Government | | Processor | |
|-------------|----------------------|------------------|-------------|------------------|-------------|
| | | Average per skin | Amount | Average per skin | Amount |
| 1958 | 54,315 | \$42.23 | \$2,294,090 | \$27.13 | \$1,473,769 |
| 1959 | 46,380 | 61.24 | 2,840,750 | 31.17 | 1,445,856 |
| 1960 | 46,606 | 68.70 | 3,201,856 | 32.75 | 1,526,563 |

The above tabulation refers to skins of Alaska Fur Seal quality. The lesser quality skins were not processed and sold during fiscal years 1958, 1959, and 1960.

We attended the auction sale held by the fur processor in October 1959 during which a total of 24,018 sealskins were sold for a total of about \$2,455,000. Of this amount about \$790,000 was retained by the processor and about \$1,665,000 was remitted to the Government under the terms of the contract. The respective shares of the Government and the processor in the average price per skin were \$69.31 and \$32.89. We observed that the auction was well organized and the procedures followed in accounting for the sale proceeds were conducted in an effective manner. Our tests of the processor's records of the Government-owned fur sealskins on hand at its plant and in storage in bonded warehouses showed that these records were satisfactory.

After the sale in October 1959, the processor had in its possession a total of about 174,000 sealskins consisting of about 86,000 male and about 88,000 female skins. About 29,000 skins were at the processor's plant for processing, and about 145,000 skins were stored in a bonded warehouse. The male skins and only a small portion of the female skins can be processed so as to produce a finished product of top or Alaska Fur Seal quality. Most of the female skins, even when processed in the same manner as male skins, will produce an inferior product which does not justify the cost of such processing.

Because of the large number of female skins on hand and expected to be obtained in future years, the contractor is attempting to develop a method of processing female skins which will produce a product for which a market may be found. At the present time, however, only the male skins can be considered as a substantial source of potential income.

BY-PRODUCT OPERATIONS AND SALES

The by-products of the fur seal operation are oil and carcass meal. To process the carcasses and the blubber which is removed from the inside of sealskins, FWS operates a by-products plant on St. Paul Island. Because St. George Island accounts for only about 20 percent of the annual amount of sealskins taken, a plant on this island is not considered by FWS to be economically feasible. Moreover, because of the difficulty of transporting them over 40 miles of water, the blubber and carcasses of the sealskins taken on St. George are not processed at the St. Paul plant.

The blubber, which produces a superior grade of oil, is cooked separately to obtain the oil. The carcasses are chopped

up, cooked, and pressed to extract the oil. After extraction of the oil, the remaining carcass material is dried and pulverized into meal.

At the end of the sealing season, the oil and meal are shipped to Seattle, Washington, and offered for sale to the highest bidder.

Financial results of the by-products operation during fiscal year 1959 were as follows:

| <u>Receipts</u> | | |
|------------------------------|---------------------------|-----------------|
| Blubber oil (33,400 gallons) | \$19,146 ^a | |
| Carcass oil (18,035 gallons) | 6,068 | |
| Meal (328 tons) | <u>36,089^b</u> | \$61,303 |
| <u>Expenses</u> | | |
| Plant operation | 42,143 | |
| Disposition costs | <u>11,195</u> | <u>53,338</u> |
| Net profit | | <u>\$ 7,965</u> |

^aExcludes the sale of \$115 of seal oil sold to the fur processor.

^bIncludes the sale of \$1,102 of seal meal to one of the Service's fish cultural stations. This sale was not included by the Service in the 1959 revenues listed on page 11 of this report.

ADMINISTRATION OF THE PRIBILOF ISLANDS

By the act of February 26, 1944, as amended (16 U.S.C. 631), the Pribilof Islands were declared a special reservation for Government purposes, and it was made unlawful for any person, other than natives of the islands and employees of the Fish and Wildlife Service, to land or remain on the islands, except in emergency or by authority of the Secretary of the Interior. The act provides also that the native inhabitants of the islands shall be employed in the killing of seals and in the curing of the skins taken and gives the Secretary authority to fix fair compensation for the labor of the native inhabitants; prescribe the manner in which such compensation shall be paid or expended or used on behalf and for the benefit of the natives; establish and maintain supply depots on the islands; provide transportation of provisions and supplies from the mainland of the United States to the islands; and furnish food, shelter, fuel, clothing, and other necessities of life to the natives and provide for their comfort, maintenance, education, and protection.

Prior to 1950, it was the policy of the Secretary of the Interior to compensate the Pribilof Islands natives by paying in cash a sealing bonus and furnishing, without charge, food, housing, fuel, clothing, and medical, educational, and recreational facilities. In January 1950, a partial cash compensation plan was initiated and free issues of fuel were discontinued. The compensation plan established worker classifications with stated annual wages, retained the annual sealing bonus, and provided annual and sick leave benefits.

Under authority of the act, the Secretary established in 1954 a cash compensation plan providing annual salary rates which in 1959 ranged from \$988 to \$3,328; he furnishes without charge housing, medical attention, medical and recreational facilities, and electricity up to a maximum monthly quantity and makes free issues of food, clothing, and household supplies to indigent natives. Transportation of provisions and supplies to the islands has been provided by means of chartered Navy cargo ships and the operation of the FWS supply tender, "Penguin II." Total cost of operating the "Penguin II" during fiscal year 1959 was about \$130,000.

NEED FOR ACTION TO RESOLVE GROWING ECONOMIC PROBLEMS
AND FOR BETTER UTILIZATION OF NATIVE MANPOWER

The continued rise in the native population of the Pribilof Islands is increasing the growth of certain economic problems because the volume of sealing operations, the only substantial source of livelihood for the natives, leveled off years ago. The native manpower can be better utilized which will reduce the cost of the sealing operations by decreasing the number of employees imported each year during the sealing season.

The native Aleut residents of the islands are, for the most part, descendants of Aleutian Island natives originally brought to the Pribilofs by the Russians to exploit the fur seal herd. The population has increased from 289 in 1910, to 458 in 1940, and to 601 at the end of 1958. The only substantial source of livelihood for the Pribilof Island natives is the Government fur seal industry.

In connection with the 1957 interim convention on conservation of North Pacific fur seals (see pp. 35 and 36 for additional

details), the Department of State informed the President of the United States that the fur seal herd had increased from about 124,000 animals in 1911 to about 1.5 million in 1941. The Bureau's records show that about 12,000 skins were taken in 1911. The Bureau estimated in 1957 that the level of the herd was about 1.5 million animals, which Bureau's biologists estimated to be the maximum average size of the herd, and that since 1940 the herd had sustained an average annual yield of about 65,000 sealskins. Therefore, the manpower needs of the sealing operations have leveled off while the number of Pribilof Islands natives depending on the sealing industry is increasing.

The Service, however, imports about 84 nonresident laborers for several months each year for employment in some of the sealing operations, village maintenance, cargo handling, construction work, and operation of the St. Paul Island by-products plant. These laborers are paid \$249 a month and the total cost is about \$21,000 a month. In addition to laborers imported from other parts of Alaska, employees of the fur processor are imported from other States to perform certain skin-curing operations on St. Paul Island. The travel expenses of the fur processor's employees are reimbursed to the company by FWS and have amounted to about \$17,000 annually in recent years. Although the native residents on St. George Island perform these skin-curing operations, we were informed by FWS officials that they had been unable to induce the St. Paul natives to do this work.

During the summer sealing season (about 60 days) the resident natives who actually kill the seals and remove the skins work an average of about 4-1/4 hours a day or about 30 hours for a 7-day week. Service personnel have informed us that for the rest of the year the resident native labor force cannot be efficiently employed.

Under the provisions of the act of February 26, 1944, the Secretary of the Interior is required to provide for the general welfare of the natives. In light of a fairly stable sealing operation, more welfare costs are included in the cost of the sealing operations as the population increases. We believe that steps should be taken to alleviate the problem by establishing a program to encourage the relocation and rehabilitation of some of the natives. We believe also that the Service should take steps to reduce administrative costs and through better planning decrease the number of additional employees brought in during the sealing season from other parts of Alaska and the other States.

In commenting on the need to establish a relocation and rehabilitation program, the Department advised us on September 20, 1960, as follows:

"As stated previously, 'we are making progress in encouraging the resettlement of resident natives from whom there is no year-round employment on the Islands.' Through collaboration with relocation officials of the Bureau of Indian Affairs, a program has been devised whereby resident Aleut natives may be relocated. The relocation authority of the Bureau of Indian Affairs applies to the Aleut natives of the Pribilof Islands.

"A Bureau of Indian Affairs official, from the Anchorage Alaska Office, has surveyed the situation by actual visits to the Pribilof Islands. To date six Aleut families have been relocated. Expenses, relative to relocation, have been shared jointly by the Bureau of Commercial Fisheries and the Bureau of Indian Affairs. The Bureau of Commercial Fisheries has paid transportation expenses of families being relocated, to Seattle, Washington. Further expenses in connection with relocation, and subsistence until employment is obtained, have been paid by the Bureau of Indian Affairs. The results of the relocation effort should stabilize the increasing Aleut population and thereby provide a basis for better utilization of native manpower on the Islands.

"The existing relocation authority held by the Bureau of Indian Affairs; and the above described program established therefrom, should prove adequate to cope with the increasing Aleut population."

Recommendations to the Director,
Bureau of Commercial Fisheries

So that the costs of the sealing operations may be reduced by decreasing the number of employees imported during the sealing season, we recommend that the Director:

1. Plan to have as much of the village maintenance, cargo handling, and construction work done by the native population at times other than at the height of the sealing operations.
2. Provide for a 40-hour workweek for the native work force, especially during the sealing season.
3. Establish an adequate bonus-incentive plan to encourage the St. Paul Island natives to perform the skin-curing operations, as is being done by the natives on St. George Island.

- - - -

In commenting on our proposals to the Director, Bureau of Commercial Fisheries, the Department advised us on July 18, 1960, as follows:

"With regard to the prospects of reducing the sealing operation costs, we have many times looked into the possibilities of reducing the use of non-resident labor. We have experimented with the use of St. Paul resident native labor in the blubbering and handling of sealskins and, in addition, we have considered alternative methods of scheduling supply operations to better distribute the native work-load over the year. We are making progress in encouraging the resettlement of resident natives for whom there is no year-around employment on the Islands. Also, we have underway a study of the advantages and disadvantages and relative costs of operating the fur-seal industry with non-resident labor as opposed to a combination of resident and non-resident labor."

SCOPE OF REVIEW

Our review of the fur sealing operations conducted by the Bureau of Commercial Fisheries, United States Fish and Wildlife Service, was performed at the Pribilof Islands in Alaska; the Bureau's offices in Seattle, Washington, and Washington, D.C.; and at the fur processor's plant in St. Louis, Missouri. The review was made principally to identify and develop matters requiring improvement and was conducted in the following manner:

1. We reviewed the Federal legislation and international agreements pertaining to the fur sealing operations conducted by the Bureau.
2. We reviewed the Bureau's programs, organization, management, financing, and staffing for conduct of the sealing and related operations.
3. We observed the killing of seals, curing of sealskins, and manufacture of by-products and examined controls over sealskins.
4. We reviewed to a limited extent the utilization of manpower and native welfare activities.
5. We reviewed the supply and disbursing activities and tested related financial transactions to the extent we deemed necessary.
6. We observed the operations of the fur processor, including the auction sale of fur sealskins, and we tested the inventory of sealskins in the possession of the processor and those stored in a bonded warehouse.

APPENDIX

HISTORY, LEGISLATION, AND TREATIESFur seal herds

Fur seals are mammals that live the greater part of their lives in water. The American herd, which comprises about 80 percent of the world's fur seals, congregates each year on the Pribilof Islands. Insofar as is known, they never go ashore at any other place. Two smaller herds of fur seals make their homes on Robben Island and the Commander Islands off the Asiatic coast, administered since World War II by Russia. Fur seals are also found on Lobos Island, Uruguay; off Cape of Good Hope, Africa; and to a very limited extent in other cold parts of the southern hemisphere. The fur seal (*Callorhinus Ursinus*) is not to be confused with the common hair seal which is widely distributed over the world. The latter does not have the soft underfur which characterizes the Alaska fur seal and makes it so valuable.

Early history of Pribilofs

Gerassim Pribilof, a Russian navigator, discovered the Pribilof Islands and the Alaska fur seal herd in 1786. The group, which was uninhabited when discovered, consists of five islands of volcanic origin, three of which are small and relatively unimportant. St. Paul Island, the largest, is about 14 miles in length, and 40 miles away is St. George Island, about 12 miles in length. The Pribilofs were under Russian management for 81 years from the time of their discovery until 1867 when Alaska was purchased by the United States. The Russians are said to have taken more than 2.5 million pelts from the islands during this period.

Early legislation

Immediately after the purchase of Alaska, a number of independent companies began sealing operations on the Pribilof Islands, taking an estimated 329,000 skins during the period 1868-69. By the act of July 27, 1868 (15 Stat. 240), the killing of fur seals was prohibited, and on March 3, 1869, the islands were set aside as a special reservation for the protection of the animals. By the act of July 1, 1870 (16 Stat. 180), the Treasury Department was authorized to lease exclusive rights to take seals on the islands. Further legislation in 1874 (18 Stat. 24) authorized the Secretary of the Treasury to establish catch quotas and open seasons for the lessee. Under the first 20-year lease, beginning in 1870, the Alaska Commercial Company took 1,977,377 sealskins, and under a second 20-year lease beginning in 1890, the North American Commercial Company took 342,651 skins. The leasing system was discontinued in 1910. Since that time, under the acts of April 21, 1910 (36 Stat. 326), March 4, 1913 (37 Stat. 736), and April 3, 1939 (53 Stat. 561), and Reorganization Plan No. II, the Alaska fur seal herd has been under the management of the Federal Government, first by the Secretary of Commerce and Labor, then by the Secretary of Commerce, and now by the Secretary of the Interior through the United States Fish and Wildlife Service.

Pelagic sealing

Pelagic sealing, or the taking of fur seals while at sea, began to develop on a commercial scale about 1879. Pelagic sealing is very wasteful because many of the seals killed are not

recovered. Each female killed means the loss of her pup ashore because a mother seal never suckles any but her own pup; and unborn pups are lost if the female is killed while on her way to the breeding ground where the pups are born. Pelagic sealing was practiced by American, Canadian, and Japanese nationals to such an extent that the Pribilof herd was reduced to less than 135,000 by 1909 and faced extinction. The number of seals in the herd in 1867 when Alaska became the possession of the United States has been variously estimated at from 2 million to 5 million animals.

Convention of 1911

On July 7, 1911, after extended diplomatic negotiations, the United States, Great Britain, Japan, and Russia entered into a convention for the preservation of the North Pacific fur seals. This agreement, commonly known as the North Pacific Sealing Convention, prohibited pelagic sealing except by aborigines using primitive weapons. Each country controlling fur seal rookeries agreed to share 30 percent of its annual take of sealskins--Canada and Japan each to receive 15 percent of the sealskins from the Pribilof Islands and 15 percent of those from the Russian-owned Commander Islands, and Canada, Russia and the United States each to receive 10 percent of the pelts from Robben Island which was at that time held by Japan. These allotments were made in return for the surrender of such profits as had been previously derived from pelagic sealing. The 1911 convention and the act of August 24, 1912 (37 Stat. 499), which gave effect to the convention, remained in force until terminated by Japan on October 23, 1941, after

allegations as early as 1926 that the herd had grown too large and was devouring valuable food fishes essential to the Japanese economy.

Provisional agreement and act of February 26, 1944

From 1942 to 1957 the Pribilof herd was protected by a provisional fur seal agreement similar to the 1911 convention, between the Dominion of Canada and the United States, under which Canada received 20 percent of the skins taken each season on the Pribilof Islands. The act of February 26, 1944 (16 U.S.C. 631), was enacted to give effect to the 1942 agreement. This legislation also brings together all previous legislation affecting the Pribilof Islands fur seal herd.

Following is a summary of some of the more important provisions contained in the act of February 26, 1944.

Sections 2 and 3--prohibits pelagic sealing by American nationals in the North Pacific Ocean, except by aborigines using primitive weapons and methods.

Section 4--authorizes the Secretary of the Interior to permit killing of fur seals on the Pribilofs by employees of the Fish and Wildlife Service and Alaska natives.

Section 5--permits the sale of sealskins by the Secretary of the Interior with deposit of the proceeds into the Treasury and authorizes to be appropriated annually an amount not to exceed the total proceeds of such sales covered into the Treasury during the preceding fiscal year for development of the fur seal and other wildlife resources of the Pribilof Islands and the proper utilization of the products from these resources.

Section 6--declares the Pribilof Islands a special reservation for Government purposes and makes it unlawful for any person other than natives or Fish and Wildlife Service employees to land or remain on the islands except through stress of weather or like unavoidable cause or by authority of the Secretary of the Interior.

Section 7--requires that natives of the Pribilof Islands shall be employed in killing seals and curing the skins taken and that they shall receive for their labor fair compensation to be fixed from time to time by the Secretary of the Interior, who shall also have authority to prescribe the manner of payment of such compensation.

Section 8--authorizes establishment of depots for provisions and supplies and their transportation from the mainland of the United States by private or public vessels, and gives the Secretary of the Interior authority to furnish food, shelter, fuel, clothing, and other necessities of life to the native inhabitants of the islands and to provide for their comfort, maintenance, education, and protection.

Section 9--authorizes the Fish and Wildlife Service to investigate the conditions of seal life upon the rookeries of the Pribilof Islands and make inquiries relative to the life history and migrations of the seals frequenting the waters of the North Pacific Ocean.

Section 17--makes it the duty of the Secretary of the Interior to administer the act and gives him authority to make all regulations necessary for its enforcement.

Interim convention on conservation
of North Pacific fur seals

On February 9, 1957, a new Interim Convention on Conservation of North Pacific Fur-Seals was concluded by Canada, Japan, the Union of Soviet Socialist Republics, and the United States. Effective October 14, 1957, this agreement provides, among other things, for (1) a 6-year joint research program to determine conservation measures for maximum sustainable productivity of the fur seal resource and detrimental effects, if any, of fur seals on fisheries of the parties, (2) search and boarding of vessels for the purpose of arresting and trying crew members suspected of seal hunting, and (3) sharing of the land kill so that Canada and Japan each receive annually from the United States and the Soviet Union 15 percent of the sealskins taken on the breeding grounds by the latter two Governments.

Alaska Statehood Act

Under section 6(e) of the act of July 7, 1958 (72 Stat. 339), the Alaska Statehood Act, the new State is entitled to receive 70 percent of the net proceeds of sales of the United States' share of Pribilof Islands sealskins beginning in fiscal year 1959 and thereafter. The act provides that payments to the State shall be determined and paid by the Secretary of the Interior at the close of each fiscal year and that deductions shall be made for all costs of the United States in carrying out the provisions of the act of February 26, 1944, including costs of handling and dressing the skins and making the sales, as well as all expenses incurred in the administration of the Pribilof Islands.