

**REPORT ON AUDIT
OF
MINNEAPOLIS, MINNESOTA, AREA OFFICE
BUREAU OF INDIAN AFFAIRS
DEPARTMENT OF THE INTERIOR
FOR THE FISCAL YEAR ENDED JUNE 30, 1955**

**UNITED STATES GENERAL ACCOUNTING OFFICE
CIVIL ACCOUNTING AND AUDITING DIVISION**

TO THE READER:

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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON 25, D. C.

Civil Accounting and
Auditing Division

APR 24 1956

B-118601

Mr. Glenn L. Emmons
Commissioner of Indian Affairs
Department of the Interior

Dear Mr. Emmons:

Herewith is our report on the audit of the Minneapolis, Minnesota, Area Office, Bureau of Indian Affairs, for fiscal year 1955. The report contains our observations on deficiencies and weaknesses in procedures and internal control and on certain other matters. During the audit we reviewed selected phases of the organization, procedures, and operations at the locations visited. We have also given consideration to the area office actions taken with respect to matters noted in our report for the preceding year.

We wish to acknowledge the cooperation given to our representatives at each of the locations in the area visited by us. Our findings were reviewed during the audit with officials responsible for operations in the area. We will be happy to discuss these comments in greater detail with you or members of your organization.

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

Sincerely yours,

E. H. Morse, Jr.
E. H. Morse, Jr.
Director, Civil Accounting
and Auditing Division

Enclosure

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REPORT ON AUDIT
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1. Need for area office at Minneapolis

In the report on the audit of the Minneapolis Area Office for the fiscal year 1954, we recommended the integration of activities of the Minneapolis Area Office with the Aberdeen Area Office at Aberdeen, South Dakota, because the operation of the Minneapolis Area Office as a separate area is uneconomical.

The Area Directors of the Minneapolis and Aberdeen areas both agree that a consolidated office would be more economical than the present arrangement. After a conference with Aberdeen area officials, the Minneapolis Area Director submitted a report to the Commissioner of Indian Affairs dated November 19, 1954, showing that the consolidation was feasible and economical. He recommended that the consolidated office be located at Minneapolis, Minnesota, and estimated that the savings would exceed \$77,000. The Aberdeen Area Director did not agree as to the location of the consolidated office and furnished additional data to the Commissioner on November 24, 1954, showing that a substantial savings would be made in travel expenses if the consolidated office were located at Aberdeen, South Dakota.

During fiscal year 1955 the activities of the Minneapolis Area Office have continued to decrease. The activities of the Red Lake and the Consolidated Chippewa Agencies were consolidated into one agency known as the Minnesota Agency. The supervision of the activities of the Cherokee Agency was transferred from the Minneapolis Area Office to the Washington Office of the Bureau. The Minneapolis Area Office had 25 employees as of June 30, 1955, and supervised the activities of 3 agencies compared with 31 employees and 5 agencies at June 30, 1954. As of October 20, 1955, the personnel at the Minneapolis Area Office had decreased to 16 employees.

Based on the estimated personnel requirements shown in our fiscal year 1954 report (pp. 3 to 7), which requirements are also applicable to present conditions, we estimate that savings in personnel services in excess of \$59,000 could be made if the Aberdeen and Minneapolis Area Office activities were integrated, as follows:

| Activity | Number of employees at Minneapolis on October 20, 1955 | | Number of additional employees required at Aberdeen if offices were consolidated | |
|---|--|---------------------------|--|---------------------------|
| | Number of employees | Estimated annual salaries | Number of employees | Estimated annual salaries |
| Administration | 4 | \$ 24,855 | - | \$ - |
| Community Services | 4 | 27,375 | 1 | 5,845 ^a |
| Resources Development and Management | 6 | 43,190 | 5 | 29,855 ^b |
| Indian Trust Property Management | 2 | 12,290 | 2 | 12,290 |
| Total | <u>16</u> | <u>\$107,710</u> | <u>8</u> | <u>\$47,990</u> |
| Savings if area office activities were integrated | | | | <u>\$59,720</u> |

^a Provides for the addition of one GS-9 employee with contract negotiating experience.

^b Provides for the addition of one GS-9 employee and one GS-4 employee under the Roads Branch and retention of Minneapolis Forestry Branch.

In our opinion, the proposed staffing changes would not eliminate essential services for the Bureau's supervision in the area.

To achieve these savings and to promote greater efficiency in carrying out the Bureau's programs, we again recommend that the Commissioner of Indian Affairs give consideration to complete integration of the Minneapolis Area Office with the Aberdeen Area Office at Aberdeen, South Dakota.

2. Administrative fees on timber sold to the Red Lake Tribal Sawmill not charged

The Bureau has not charged fees to cover administrative expenses incurred by the Government on sales of tribal timber to the Red Lake Tribal Sawmill.

The Code of Federal Regulations (25 C.F.R. 61.25) provides, in part, that:

"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 ***."

The Superintendent of the Minnesota Agency and the Minneapolis Acting Area Director informed us that administrative expenses have been incurred by the agency each fiscal year since 1936 on timber delivered to the Red Lake Tribal Sawmill. The Bureau's Assistant Chief of Forestry informed us that the Commissioner had not issued specific instructions on the amount of administrative costs to be collected on the sale of timber to the Red Lake Tribal Sawmill.

The financial reports of the Red Lake Tribal Sawmill show that the value of stumpage sold to the sawmill during the period

July 1, 1936, to December 31, 1954, was \$622,785. Accordingly, the total administrative fee due the Government for this period is \$58,626, computed as follows:

| <u>Period</u> | <u>Stumpage value</u> | <u>Rate</u> | <u>Amount of fees</u> |
|---|----------------------------|------------------------|-----------------------|
| July 1, 1936, to August 31, 1944 | \$182,583 ^a | 8 percent ^c | \$14,606 |
| September 1, 1944, to December 31, 1954 | <u>440,202^b</u> | 10 percent | <u>44,020</u> |
| Total | <u>\$622,785</u> | | <u>\$58,626</u> |

^a Includes 1/6 of fiscal year 1945 stumpage value.

^b Includes 5/6 of fiscal year 1945 stumpage value.

^c The deduction from the gross amount received for timber sold was 8 percent prior to September 1, 1944.

To reduce the net cost of administration to be borne by the Federal Government, we recommend that the Minneapolis Area Director enforce the regulation requiring the charging of fees to cover administrative expenses for the value of timber used by the Red Lake Tribal Sawmill and deposit these amounts into the Treasury in accordance with the act of February 14, 1920, as amended (25 U.S.C. 413).

3. Administration of individual Indian money accounts

Our audit of the Menominee Agency for fiscal year 1955 disclosed the following deficiencies in the administration of individual Indian money accounts.

a. The aggregate of the balances shown on the subsidiary accounts was not in agreement with the balances recorded in the agency's control accounts at April 30, 1955, as shown in the following schedule:

| <u>Title</u> | <u>Control account balance</u> | <u>Subsidiary ledger total</u> | <u>Differ- ence</u> |
|--|--|--|-------------------------|
| Account No. 2224.1, Deposits--in- dividual Indians and Indian Groups | \$2,383,842 | \$2,384,166 | \$324 |
| Account No. 2224.3, Deposits-- other | 10,289 | 10,120 | -169 |

The subsidiary records at the Menominee Agency have not been in balance with the general ledger control accounts for many years. On March 31, 1951, an adjustment card was prepared to bring the aggregate of the subsidiary ledger cards into balance with general ledger control account No. 2224.1. At that time the aggregate of the subsidiary ledger card balances was \$8,565 less than the general ledger control balance. Various adjustments were made until July 31, 1953, when the aggregate of the balances in the subsidiary ledger totaled \$324 more than the general ledger control account balance. Similarly, the subsidiary ledger cards for account No. 2224.3 include an adjustment card showing a credit balance of \$169 since June 30, 1953. This adjustment card was used to balance the aggregate of subsidiary cards with the general ledger control account.

On December 27, 1955, we were advised by the Indian Service Special Disbursing Agent that the Commissioner of Indian Affairs had authorized the agency to accept a check in the amount of \$155 from the Menominee Indian Tribe to cover the net difference between the control account balances. We were informed also that the control accounts were adjusted so that they agree with the aggregate of the subsidiary account balances.

b. The individual Indian money accounts include many inactive accounts with small balances. Of the 435 IIM accounts at the Menominee Agency, 342 contained balances of less than \$100 on April 30, 1955. Many of the balances have been inactive since July 1, 1954.

c. The Menominee Agency has not obtained current addresses of individual Indian money account owners. Our audit disclosed that 84 percent of the 435 accounts showed no addresses at the time of our field audit in May 1955.

d. Control account No. 2224.2, Deposits--Undistributed Interest, showed a credit balance of \$632 at June 30, 1955. The interest was earned on individual Indian moneys deposited in a local bank and has been dormant since January 1950.

To account properly for Indian moneys held in trust by the Bureau, we recommend that the Area Director instruct the Menominee Agency Superintendent to:

- a. Periodically reconcile the aggregate of the subsidiary IIM ledger balances with the appropriate control account balances.
- b. Obtain the current addresses of all account holders.
- c. Close out inactive account balances belonging to Indians whose whereabouts are unknown in accordance with Accounting Systems Memorandum No. 28.
- d. Distribute interest income due to account owners on a timely basis.

Agency officials have informed us that corrective action will be taken.

4. Control of cash and accounts receivable
at the Menominee Tribal Sawmill

Our audit disclosed certain weaknesses in the handling of cash and accounts receivable at various activities operated by the Menominee Tribal Sawmill. The sawmill is operated by the Menominee Tribe, which is under the jurisdiction of the Menominee Agency. A retail store, general warehouse, and motor parts warehouse are operated as part of the sawmill activities. The following deficiencies were noted:

a. The cash collections at both the retail store and the general warehouse are not deposited daily. The collections, averaging about \$3,000 weekly at the store and at the warehouse, are submitted only once a week to the sawmill accounting department for deposit. Moreover, the sawmill accounting department has not made an audit of the cash maintained at these locations.

b. Our cash count at the general warehouse, on August 22, 1955, disclosed that cash on hand was \$12 less than the amounts shown by the records. The warehouseman made up this difference from his personal funds.

c. Sales slips used by the retail store and the warehouses are numbered from 1 to 50 and bound into pads. The pads are not numbered and over-all numerical control is not maintained.

d. Accounts receivable ledgers or control records are not maintained for credit sales made at the general warehouse. When credit sales are made, both the original and duplicate sales slips are retained by the warehouse. The triplicate sales slip remains in the sales slip pad, but the pads are not usually retained by

the warehouseman. As payments are made, a sales slip is issued for the amount of cash received. When the total amount paid equals the amount of the credit sale, the original credit sales slip is given to the customer. The credit sales slips are accumulated by customer's name, but over-all control is not maintained over the amounts due or collected.

e. Credit sales made by the motor parts warehouse are recorded in the accounts receivable records maintained by the sawmill accounting department. The credit sales slips are filed by customer's name on an open rack at the motor parts warehouse, but numerical control is not maintained. Our test-check disclosed that some of the sales slips, aggregating \$73, had not been recorded in the accounts receivable records.

f. The cash at the motor parts warehouse was maintained in an open box in an unlocked desk drawer. Our cash count on August 23, 1955, disclosed that cash on hand was \$3 more than the undeposited sales slips. The regular warehouseman was on extended sick leave, and the employee on duty could not furnish an explanation for the difference.

To provide adequate control over cash and accounts receivable at the retail store and warehouses, we recommend that the Area Director require that the following practices be instituted:

- a. Periodic audit by sawmill accounting department of cash maintained at retail store and warehouses.
- b. Use of prenumbered sales slips to record all sales, except cash sales at the retail store, which are recorded in a cash register. The sawmill accounting department should maintain numerical control over the sales slips.

- c. Establishment of adequate accounts receivable control for credit sales made at the warehouses.
- d. Cash at the motor parts warehouse should be properly safeguarded.

5. Control over procurement activities at the Menominee Tribal Sawmill

The sawmill manager does not have adequate control over the procurement activities of the various operations of the Menominee Sawmill. The managers at the retail store and the general warehouse have complete responsibility for the purchasing, receiving, pricing, and disposing of supplies for their respective operations.

Purchases during the fiscal year amounted to \$118,153 at the retail store and \$158,950 at the general warehouse. The salesmen who contact the individual managers prepare the requisitions on their own order forms. These forms are forwarded to the purchasing agent for the issuance of a formal purchase order. On other purchases the managers show the vendor's name on the approved requisition and this form is forwarded to the purchasing agent to support the formal purchase order. The purchasing agent, responsible to the sawmill manager, determines that funds are available for payment and issues the purchase order to the vendor shown on the salesmen's order or requisition. The purchasing agent does not review the requisitions to determine that the purchases are made in the most economical manner.

At the end of the fiscal year the individual managers take a physical inventory of their stock on hand and establish the inventory value for accounting purposes. An independent count or pricing of the stock by employees who are not responsible for the care or sale of the supplies is not performed.

To establish adequate control over the procurement and handling of supplies at the Menominee Sawmill, we recommend that the Area Director require that the sawmill management review periodically the procurement and operating practices of the retail store and general warehouse to determine that they are carried out in the most economical manner consistent with sawmill operations. We recommend also that purchase requisitions be prepared by the individual managers and that independent physical inventories be taken periodically.

The sawmill manager informed us that corrective action would be taken and that consideration would be given to the taking of physical inventories by employees who are not responsible for the supplies being inventoried. The Menominee Agency Superintendent stated that he would review the sawmill activities to determine that proper corrective action is taken.

6. Idle and surplus equipment not reported

Surplus and idle equipment is not reported monthly to the area office for redistribution or disposal. The Indian Affairs Manual (vol. IV, part III, sec. 209.01A (1)) provides that all major equipment that is temporarily idle or excess to the needs of the agency shall be reported to the area office not less than once each month. Personnel of the area office have not required the agencies to submit these reports. Discussions with the Roads Engineer at the Menominee Agency disclosed that the following equipment had not been used in the agency operations for a number of years.

| <u>Type of equipment</u> | <u>Identification number</u> |
|---------------------------------|------------------------------|
| Pneumatic-tired tamping machine | 6-2851 |
| Bituminous mixing plant | 6-2852 |
| Roller, sheepsfoot | 6-3012 |
| " " | 6-3013 |
| " " | 6-3014 |

To provide for proper control over idle and surplus equipment, we recommend that the Area Director issue instructions to the agency requiring the submission of monthly reports on such equipment. These reports should be used for redistribution or disposal of idle or surplus equipment. Area officials informed us that corrective action would be taken.

7. Other deficiencies

During the audit we also noted the following deficiencies.

a. Travel on official business was not always accomplished in the most economical manner. We noted several cases where employees traveled from the area office on Monday or Friday instead of over the week end. We noted also several cases where automobile travel was started shortly before or ended shortly after the 6-hour per diem period, thereby resulting in additional claims of one quarter of a day per diem.

b. Payroll procedures at the Menominee Tribal Sawmill are deficient in that the timekeeper is responsible for the preparation of certain employees' time records and also distributes the pay checks of these employees. The sawmill manager agreed that these duties should be segregated.

c. The general ledger maintained at the Menominee Agency shows the value of tribal equipment at June 30, 1955, as \$195,690.

This balance had remained unchanged for the preceding 6 months even though equipment was received during that period. Moreover, the agency did not maintain property records to support this balance.

Area officials informed us that corrective action would be taken.