

UNITED STATES GOVERNMENT

*Memorandum*Executive Office of the President
Bureau of the Budget

TO : Mr. Schwartz

DATE: October 9, 1962

FROM : ~~W~~ (D. C. Lindholm)SUBJECT: GAO audit report for the Trust Territory of the Pacific Islands --
1957 through 1960.

This GAO audit report begins its summary of findings and recommendations with the following sentence: "our audit disclosed a large number of accounting errors, and serious weaknesses in the accounting policies and practices of the Trust Territory Government." It goes on to say that for the past several years the budget estimates of the Trust Territory Government have been deficient in several respects. These general comments summarize a large number of deficiencies that GAO found in the Trust Territory. The GAO audit report confirms the conclusions we had already come to through our knowledge of the administrative setup in the Trust Territory and the budget submissions we have reviewed.

The Department's comments submitted under budget circular A-50 cover in some detail the specific recommendations of GAO. Although the Trust Territory has taken action on some of these items the general tenor of the comments is that corrections and improvements will be made in the future. From personal contact with Mr. ~~T~~ ^M ~~itano~~ in the Office of Territories, we know that he has been very concerned with the poor administrative capabilities of the Trust Territory. Although we believe the Office of Territories and the Trust Territory may be sincere in their efforts to improve the accounting and budget operations, we have some doubts that this can be accomplished without additional trained personnel and possibly a rather thorough study of the administrative setup. One of the issues raised in the 1964 preview material was whether a thorough going ~~over~~ organizational study should be made of the Trust Territory. We believe the administrative study could either be incorporated into the more general study or undertaken subsequent to it.

Specific comment on the GAO recommendations does not appear to be necessary except for one item which is discussed below. Inasmuch as there are no statements in the Department's comments with which we feel the Bureau should take exception, we recommend no specific action on the report at this time other than to discuss at fall budget hearings the need for an organizational study of the Trust Territory. We may want to discuss this with Assistant Secretary Carver's office and the Office of ~~the Trust Territory~~ before discussing it with the High Commissioner.

The one item in the GAO audit report on which specific comment is necessary relates to the deposit of certain funds in commercial banks to the credit of the Trust Territory rather than the Treasurer of the United States.

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In 1954 the Navy transferred to Interior funds for the settlement of certain land claims. Since that time settlements have been made on most of these claims but a few are still pending, mainly on Kwajalein. At the present time there is \$631,405 in the land claims fund, all on deposit with the bank of Hawaii at Guam and Kwajalein. GAO believes that these funds should be deposited to the credit of the Treasurer of the United States as required by 31 U.S.C. 492. Interior maintains that these funds have been treated as a Federal expenditure and are now in a category similar to the Territory's grant funds which can be deposited in a bank and interest drawn thereon. GAO has been reluctant to give the Department a formal finding that these funds should be deposited to the credit of the Treasurer of the United States. GAO ~~raises~~^{makes} the point that these funds could reduce the borrowing necessary by the Treasury and thus eliminate some of the Federal Government's interest costs. Interior is currently drawing 3% interest on the funds and the interest is added to the principle in the fund. A bill was submitted to the Congress this year to provide a means for settling these outstanding claims in the United States Court of Claims. The bill will not be enacted this session but there is a good chance that it will be passed next session. When these claims are finally settled, the claims fund will be utilized as a source of payment. If a balance remains in the fund, undoubtedly we would propose to deposit it into miscellaneous receipts of the Treasury or use it as an offset against the grant to the Trust Territory.

While we would tend to agree with GAO's position on this matter, we do not believe it is significant enough for us to take issue with Interior, especially since GAO seems reluctant to make a formal ruling on the matter. In the long run the only possible loss to the Federal Government would result from costs of Federal borrowing that exceeded the 3% interest now being earned on the fund.

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