

## For many with stake in Alaska native corporations, promise of better life remains unfulfilled

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Thursday, September 30, 2010; 10:53 AM

NOME, ALASKA - They wander the streets of this chilly city just steps from the arctic tundra, native people who have little money and nowhere else to go. Some come from villages without plumbing. Others drift among the city's bars or hold down low-wage jobs. Wearing flannel shirts and tennis shoes, they are among America's poorest corporate shareholders.

They came by their holdings in the Sitnasuak Native Corp. as a birthright, when Congress established more than 200 Alaska native corporations, or ANCs, 40 years ago to provide land and money for indigenous people who had long been mired in deprivation and dislocation.

Each of the 75,000 original Alaska native shareholders received a stake in one of the new corporations, which held out the promise of economic development and a better life. The corporations have received extraordinary exemptions that have enabled them to receive \$29 billion in federal contracts in the past decade.

But the original promise remains largely unfulfilled.

Native shareholders have gotten relatively little of the contracting largess. In many cases, the bulk of the money and jobs has gone to nonnative executives, managers, employees and traditional federal contractors in the lower 48 states, a Washington Post examination has found.

Under pressure to spend quickly after the terrorist attacks of Sept. 11, 2001, the Pentagon and other federal agencies took unprecedented advantage of the special contracting privileges given to the ANC-owned firms, including the ability to receive contracts of any size without competition. The result was one of the largest contracting booms for a minority group in U.S. history.

The [Defense Department](#) and civilian agencies have used the Alaska corporations as a shortcut for a dizzying array of work: intelligence analysis, base security, satellite support, janitorial services, bioterrorism research, computer systems, water tanks in Iraq, support for the drug war in Colombia.

Few addressed the obvious question: How could small, inexperienced native companies handle giant government contracts? The answer was to hire nonnative executives and workers and partner with established firms, including major Pentagon contractors. ANC-owned firms won contracts and passed on much of the work and revenue to the nonnatives and major contractors, audits and other records show.

The spending surge has had little effect on problems afflicting native Alaskan people. Unemployment rates among Alaska natives remain far above those in the rest of the nation. Many still lack indoor plumbing and must get their drinking water from communal "washeterias" and carry their waste by hand to trash cans known as "honey buckets."

Last year, Sitnasuak earned after-tax profits of \$14.5 million on revenue of \$212 million. But the amount paid to Sitnasuak's 2,238 shareholders was just \$305 apiece, a total of \$682,000, according to a Post analysis of data provided by the corporation.

At the same time, millions ended up at a consulting firm based in the Bethesda home of H. James Nunes, a nonnative hired to help run the corporation's federal contracting operations, with the approval of the corporation's native president. Nunes got \$6.4 million last year. His chief financial officer made \$1 million. The executive vice president received \$470,000. The chief operating officer was paid \$403,000. All are nonnatives.

Nunes's attorneys said he earned his money by making the company profitable. But some shareholders think they should have gotten more.

"I don't know where it has gone," said Sitnasuak shareholder Paul Ongtooguk, an assistant education professor at the University of Alaska at Anchorage. "But it's not in our communities."

That feeling is shared by shareholders in other ANCs that have joined the scrum for federal contracts. The dividends, scholarships and charitable contributions flowing from the federal contracts averaged a little more than \$615 a year for shareholders of 19 top ANCs between 2000 and 2008, according to congressional data.

The story of Alaska native corporations is one of good intentions gone awry - and federal authorities looking the other way because it suited their interests. Both Alaska native shareholders and American taxpayers appear to have been shortchanged by the program, according to The Post's examination.

A review of thousands of records and dozens of interviews with native shareholders, ANC executives, government officials and others in Alaska and across the nation found:

I The Washington region, not Alaska, is home to the largest concentration of ANC federal-contracting operations. More than 300 subsidiaries have been created nationwide. Of the 35,000 jobs worldwide, only about 10 percent are filled by Alaska native people.

I Uncounted millions have been paid to nonnative executives, consultants and others who sometimes benefited from inexperienced native officials and a lack of government oversight, according to government audits, legal records and interviews. Over the past decade, executive salaries at some companies have doubled or tripled, with some executives taking home more than \$1 million a year, according to a Post review of proxy statements.

I Federal officials and most members of Congress have ignored audits, government investigations and other media reports that warned of higher costs and said that the Alaska firms might be used to inappropriately pass on work to established contractors. The Small Business Administration and other agencies with oversight responsibilities have failed to prevent fraud and other abuses, hampered by a lack of know-how, resources and commitment.

I Federal rules allow most of the Alaska firms to operate in financial obscurity. Only a third are required to file financial reports, which go on paper to a state office in Anchorage. Congress excluded the Securities and Exchange Commission from any oversight role because the shares cannot be sold or traded. Although the federal government keeps tabs on the gross amount of contracts, no authorities track how much goes back to Alaska native shareholders.

"It does make you wonder what the economic development benefit is," said Roger Prince, chief of Alaska's securities section. "You can't know."

In the Washington region, the benefits have been clear. Government agencies saw a way to get things done quickly. Entrepreneurs saw a chance to profit. Bob Malkowski, a former Coast Guard officer who made \$563,000 in 2008 as the executive in charge of four ANC subsidiaries in Northern Virginia, witnessed the phenomenon firsthand.

"The whole ANC thing was an epidemic," he said. "I was just astounded. I couldn't believe these rules could be true."

The rules allow Alaska native-owned firms with little experience and staff to take the lead on major government contracts.

In 2000, NJVC was a new joint venture formed by two new Alaska native subsidiaries with 30 employees and little technology expertise. The next year, it received a 15-year contract worth up to \$2.2 billion to help manage a Defense satellite program at what is now known as the National Geospatial-Intelligence Agency.

How could a tiny start-up help manage the government's main spy satellite program?

The ANCs immediately subcontracted much of the work to a team of major Beltway contractors, including Lockheed Martin, General Dynamics and BAE.

This was allowed under federal rules, as long as employees of the subsidiaries did 51 percent of the work. But oversight was lax, congressional investigators later found.

In the late 1990s, the SBA delegated much of the responsibility for executing the deals with the Alaska firms to the Pentagon and other federal agencies, a move intended to make procurement more efficient. That included making sure that the firms performed the required amount of work and received the proper amount of revenue.

But audits have found that many of the contracting officers in other government agencies did not know how to track those firms or enforce the rules.

"They have no idea of their responsibility," said Karen Forsland, director of the SBA district office in Anchorage.

Another Alaska native subsidiary shared the lead on a \$1.1 billion contract to manage missile and weapons research in Huntsville, Ala. Two other inexperienced subsidiaries received contracts without competition worth nearly a billion dollars to provide guards to Army bases and passed on much of the work to Wackenhut Services and another security giant. The Army knowingly overpaid by 25 percent on the contracts compared with deals for the same work awarded through competitive bids, auditors later found.

Steven Schooner, a contracting law professor at George Washington University Law School, said the unique rules offer "irresistible temptation to exploit the weaknesses in the system" and play "what might be described as corporate 'shell games.' "

In an interview with The Post, the Pentagon's top procurement official, Shay Assad, said that the ANC contracts have boosted the costs to taxpayers because they have been used "for expediency," and "you pay a premium for expediency."

"It's just the nature of how it comes about. We don't have a free and open competition," Assad said. "The program has goodness at its foundation. But because of the nature of the way it is structured, it can be abused."

Even some Alaska native corporation executives now say they think the system is flawed.

"We have seen things that show some organizations have broken the law," said Aaron Schutt, chief operating officer of Doyon Limited, a native-owned company that is the largest land owner in Alaska, with more than 12 million acres in the heart of the state. "We believe reform is both necessary and good."

Sarah Lukin, director of the Native American Contractors Association, defended the Alaska native program, saying that it is fair, beneficial to natives and taxpayers, and self-regulated by the natives through corporate board elections. "These individuals represent the checks and balances of their native corporation," she said.

The Alaska companies by law are allowed to have subcontractors, she said, and assertions that ANCs have operated as fronts "is an irresponsible claim that is false at its core."

Alaska native contracting, she said, "is one of the only native economic programs that is improving the lives of thousands of people while offering the federal government an opportunity to achieve its contracting needs in an efficient, cost-effective manner."

Lukin, an Alaska native, said the corporations have played a crucial role in helping natives move from poverty to self-reliance, providing \$171 million in dividends to shareholders in 2008, 66 percent of the profits that year. The dividends vary substantially among the corporations. An additional \$35 million that year went to natives through 3,200 scholarships, educational endowments and charitable contributions, she said. And the corporations have built up their equity rapidly in recent years.

"Overcoming generational poverty is not going to happen in 10 years," she said. "You will continue to see improvements in those conditions. But that will not happen overnight."

**'A long way to go'**

The poverty among Alaska natives stands in stark contrast to the richness of their culture and the raw, stunning beauty of their ancestral lands. Communities across the vast state, from Prince William Sound to the Arctic Circle and the Bering Sea coast, show few signs of the money flowing out of Washington to ANCs.

The village of Buckland, not far from the Arctic Circle, is one example. It is on the banks of the Buckland River in the area of the NANA Regional Corp., subsidiaries of which have received billions in federal contracts in recent years. Most of the weather-worn houses have no indoor plumbing. Some are surrounded by caribou antlers, rusting oil drums, old tires and bulky cargo containers that are used for storage.

Buckland has a post office, a few small stores and a modern school building that serves as an anchor of village social life. Thanks to a small power plant, the homes have electricity, satellite dishes on their roofs and, in some, flat-screen televisions, computers, coffee makers and the like, small luxuries sometimes paid for by the dividends that shareholders receive.

Many native people in the village and across the state still pursue a subsistence lifestyle, hunting for caribou and seal, fishing for salmon, collecting berries off the rolling tundra, gathering driftwood. They supplement the old ways with ramen noodles, soda, ketchup and other items brought in by small planes to the town's gravel airstrip.

Floyd "Herman" Ticket's family keeps water for drinking and washing dishes in a large gray trash can that is refilled by hand. A bright blue plastic "honey bucket" for human waste stands a few paces from the front door.

Buckland is in the process of installing modern plumbing. Ticket, a 50-year-old Inupiaq who served with the National Guard in Iraq and has raised nine kids, said the family is used to carting water and waste. For all of the struggles, he said, "it's good to live in small villages."

NANA has provided assistance to villages across the region, and its dividends have been rising. It has also lobbied state and federal agencies to improve infrastructure, work that is beyond the mandate of ANCs. But NANA spokeswoman Robin Kornfield said there is still much to do.

"I don't believe ourselves to be successful yet," she said. "We've got a long way to go."

One success story is Lucy Boyd, a 24-year-old who went from Buckland to an accounting degree at the University of Alaska at Fairbanks and on to a career in land development with NANA in Colorado. NANA provided \$20,000 in scholarship money and care packages along the way.

"Buckland is struggling," she said. But with NANA's support, "we're leaps and bounds ahead of where we would be otherwise."

The Alaska natives, in Nome and elsewhere in the state, continue to lag far behind the rest of the country in measurements of their overall health. Growing numbers suffer from heart problems, obesity and diabetes. They commit suicide at almost four times the national rate, and one study found that alcohol played a role in two-thirds of those deaths.

Last year, researchers at the University of Alaska's Institute of Social and Economic Research found that rapid improvements in the 1970s were fueled by oil exploration and federal spending. The number of natives in poverty dropped from one-half to one-quarter. But things have plateaued, with household incomes remaining flat. Although far more homes have indoor plumbing than two decades ago, the proportion of Alaska natives without toilets as of 2007 is 32 times greater than in the rest of the nation.

Unemployment has hovered officially at three times the national average in recent years, but it's actually "closer to 60 percent," said Stephanie Martin, one of the authors of the study.

"They keep waiting for the jobs," she said. "But the jobs never seem to come."

**Unique privileges**

The corporations were created under the Alaska Native Claims Settlement Act of 1971. The idea was to help Alaska natives begin

"walking in two worlds," as one traditional saying goes, enabling them to create businesses in Alaska while preserving their autonomy and culture.

The law, shaped with input from Republican Sen. Ted Stevens, formally settled native land claims not long after oil was discovered on the state's North Slope.

Instead of setting aside land for reservations as in the lower 48 states, the law launched 13 regional corporations and more than 200 village corporations, giving them almost \$1.5 billion in cash and claim to 44 million acres of land in Alaska. The corporations were given responsibility for using their share of the cash to build business. Corporations on land blessed with more natural resources had to share some of their revenue with the others.

Things went wrong almost immediately. Some of the fledgling corporations fell prey to inexperience, outsiders and mismanagement. They made bad investments in tourism, paid too much for consultants and went through vast stands of timber and other natural resources, putting some near financial ruin.

After those corporations had lost hundreds of millions, Stevens stepped in again.

In the late 1980s, he pressed for rules allowing ANC subsidiary firms to participate in the SBA's long-standing 8(a) program, through which the government offers "set-aside" federal contracting work for small, disadvantaged and minority businesses.

About the same time, Stevens used his considerable seniority and power in Congress to go even further for the subsidiaries, winning them privileges unique in the federal procurement system.

Congress exempted them from caps - now up to \$5.5 million on individual contracts - that other small, minority and disadvantaged businesses have on the size of contracts they could obtain without competition. ANCs could receive contracts of any size, even into the billions. They also are not bound by the \$100 million limit on the total amount they can make.

They were also exempted from federal rules requiring "disadvantaged" businesses to be run by executives from the disadvantaged groups. The Alaska subsidiaries do not have to be run by natives or operate in Alaska. They could be run by anybody, anywhere.

Under the new rules, the native corporations could also create an unlimited number of subsidiaries to get government business, as long as the ANCs retained ultimate control, effectively exempting them from rules that restrict small businesses from getting set-aside contracts for more than nine years.

"There is little doubt that we would not have been able to compete if not for some of these provisions," Chris E. McNeil Jr., chief executive officer of Sealaska, a regional corporation in southeastern Alaska, recently told a trade publication.

The emergence of ANCs took place amid sweeping changes that loosened oversight of federal contracts across the government. Clinton-era reforms cut the Pentagon contracting workforce in half, from 461,000 to 231,000, with the idea of saving money and streamlining operations after the Cold War. Then, in the flood of spending after the Sept. 11, 2001, attacks, the Bush administration also pushed a policy to outsource functions to the private sector.

"The government has cut the number of trained, experienced contracting personnel," said Charles Tiefer, a procurement specialist at the University of Baltimore School of Law. "It has lost their expertise at setting up rigorous competitions and checking the fairness of prices."

Over the past decade, as total government spending on contracts rose almost threefold, to more than \$550 billion, spending on the Alaska contracts soared tenfold, reaching \$5.5 billion last year. The number of subsidiaries grew from 26 to more than 300. Government contracting now provides almost half of the revenue for Alaska native corporations, according to a congressional survey.

## **At great expense**

The drumbeat of warnings began early in the rise of ANCs.

In 2004, the Los Angeles Times and The Washington Post published stories raising questions about multi-hundred-million-dollar contracts given without competition to Alaska native corporations.

In 2006, the Government Accountability Office found "almost no evidence" that agencies were tracking whether ANCs were following the rules and doing the required amount of work. "In effect, the contracts become a convenient vehicle for circumventing open competition requirements at great expense to the taxpayer," Rep. Henry A. Waxman (D-Calif.) said at the time.

Despite the questions about oversight, Stevens and the rest of the Alaska delegation remained steadfast supporters: "I do argue with the interpretation that because that oversight didn't exist, that I was wrong in the first place, or that it was a fiasco on my part," Stevens said. Rep. Don Young (R) called the criticism a "thinly disguised attack on Native Alaskan people" by jealous competitors.

As chairman of the appropriations committee, Stevens had enormous power to punish those who disagreed with him. "No one was willing to speak up and expose the abuses," Sen. Claire McCaskill (D-Mo.) told The Post this year.

In 2008, Stevens successfully fought off an attempt to restrict the program in the Pentagon budget bill. "I am relieved we have once again been successful in defending it," Stevens said at the time. He died in the crash of a small plane Aug. 9 during a fishing excursion and was not interviewed for this story.

In July 2009, the SBA's inspector general's office found that the agency had done little to keep track of the Alaska firms despite the

early warnings and suggested that Congress might want to determine whether they had "a substantial unfair competitive advantage" over other small businesses.

That month, McCaskill led a hearing on the program before the Senate subcommittee on contracting, listening to testimony that the native firms were prone to waste and fraud, with exorbitant pay to some nonnative executives.

"From the taxpayer perspective, it's hard to see why the Alaska native corporations should be able to receive enormous contracts with no competition," she said at the time.

Yet the money continued to flow, a record \$5.5 billion last year alone.

### 'Unintended consequences'

Oversight of the Alaska corporations begins with the Small Business Administration, an agency whose mission is both to boost businesses and look out for taxpayers. Repeated audits show that during the past decade, the SBA faltered in its roles, in part because its budget and staff were slashed at a time when the contracts soared to record levels.

Four years ago, auditors criticized the agency for failing to monitor the contracts and for relying on paper records because of insufficient technology. The agency promised to upgrade and do an electronic review.

But The Post found that the SBA still relies largely on paper records maintained in metal file cabinets in Anchorage. Because of cutbacks in the Bush years, the Anchorage office has had on average only three employees devoted to the Alaska native contracting program over the past decade. No electronic reviews have been done.

The SBA initially certifies each new subsidiary but generally does not review their activities or continuing eligibility, relying on an honor system. "Unless we have reason to believe otherwise, we take them at their word," said Anchorage district office director Karen Forsland.

In an interview with The Post, associate SBA administrator Joseph Jordan said that the agency had been working to upgrade its technology and that it had added two employees in Anchorage and trained a third in San Francisco to help monitor the program.

"We came in and recognized right away there was a need for more personnel," said Jordan, who joined the agency last year. "A lot of what we do in the government is done with the best of intentions. But there are unintended consequences."

The task of protecting Alaska native shareholders, including monitoring corporate finances and board elections, fell to the Alaska division of banking and securities, which has struggled with that mandate.

A decade ago, an Alaska state audit found that shareholders had difficulty understanding the annual reports, a problem that persists, said Stephen Colt, an associate professor of economics who studies ANCs at the University of Alaska.

The audit also found that state oversight was "weak," in part because the division had only one person assigned to the task and relied on archaic technology. A recent visit to the office found that there was still only one examiner and that financial records were still being maintained on paper, in a 10-by-12 room.

Jill Farrell, the examiner, said that she and her colleagues were working hard to computerize records but that she had little time to investigate shareholder complaints and allegations of abuses.

"It's just patently ridiculous," Farrell said. "I'm just swimming upstream all the time. We're overwhelmed."

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