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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

DEC 16 1969

Dear General Clarke

The General Accounting Office has reviewed the Corps of Engineers' (Corps) policy and practices relating to general investigation and survey costs incurred prior to congressional authorization of power projects. Our review was limited to the effects of this policy upon the financial statements of and the repayment plans for the Federal Columbia River Power System (FCRPS).

The notes to the financial statements for the FCRPS have, for several years, included the disclosure that it is the policy of the Corps not to include for FCRPS statement purposes those costs for general investigation and development of projects which were incurred prior to the time of congressional authorization for the Corps to construct the projects, although it is the policy of the Bureau of Reclamation (Bureau) to include such costs for projects constructed by the Bureau.

This policy has resulted in the exclusion, through fiscal year 1969, from the FCRPS financial statements and repayment studies prepared by the Bonneville Power Administration of over \$2.1 million for general investigation and survey costs incurred by the Corps.

The propriety of including general investigation and survey costs as a part of total project cost is recognized in the Federal Power Commission Uniform System of Accounts (Account 183). The Uniform System of Accounts prescribed by the Federal Power Commission provides that Account 183, Preliminary Survey and Investigation Charges, shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation. If construction results, the costs accumulated in this account shall be transferred to the appropriate utility plant account.

Recognition of general investigation and survey costs as construction costs is also provided for by the Accounting Principles

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and Standards for Federal Agencies prescribed by the Comptroller General. Section 12.5(d) states that agency accounting policies should provide for the accumulation of all significant costs applicable to property acquisitions so that agency accounts will disclose the full extent to which public funds are applied to such purposes. The costs of facilities should include material elements of costs, including those for engineering, architectural and other outside services for designs, plans, specifications, and surveys.

Section 12.5(d) states also that, regardless of differences in the way in which these costs are financed, the costs incurred should be accumulated as part of the cost of each project so that reliable information on total cost will be available for management and financial reporting purposes.

Representatives of the Corps have stated that they believe that general investigation and survey costs incurred prior to the time of congressional authorization should not be included for financial statement purposes because Senate Document No. 97, 87th Congress, does not provide for the inclusion of such costs in the formulation, evaluation, and review of plans for use and development of water and related land resources.

In this connection, the Special Assistant, Civil Functions, Department of the Army, informed the General Accounting Office in a letter dated June 30, 1966, that the Corps has interpreted Senate Document No. 97 as limiting the inclusion of study costs to those which occur after project authorization. The letter stated that Congressional Appropriation Committees had agreed in 1963 to presentation of budget data on a basis excluding preauthorization study costs from project cost estimates, and that therefore Corps procedures do not require the recording of preauthorization study costs in project accounts when financed by other than project funds.

The policies, standards, and procedures set forth in Senate Document No. 97 were designed to enable both the executive and the legislative branches to make informed judgments of the merits and desirability of water resource projects. In our opinion, costs which are incurred before the merits and desirability of a project are considered, are sunk costs and are not pertinent for inclusion in ascertaining the feasibility of a project.

However, the financial statements and repayment studies for the FCRPS are not prepared for the purpose of ascertaining, evaluating, or reviewing project feasibility. Such statements and studies are prepared, rather, to disclose the financial results of operations

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and the adequacy of power revenues to recover the Government's investment in the FCRPS and should include all known costs. The purpose of any statement should dictate the criteria for ascertaining the information to be included.

With respect to the Corps' statement that preauthorization study costs should not be included in project accounts when financed by other than project funds, Sec. 12.5(d) of the Comptroller General's Accounting Principles and Standards for Federal Agencies, specifically provides that, regardless of differences in the way in which these costs are financed, the costs incurred should be accumulated as part of the cost of each project.

In our opinion, general investigation and survey costs incurred prior to congressional authorization of a project are proper for inclusion in financial statements and the repayment studies of Federal power program costs to be recovered from the users.

RECOMMENDATION TO THE CHIEF OF ENGINEERS

We recommend that the Chief of Engineers require that general investigation and survey costs incurred prior to congressional authorization of a project be recorded as project costs and that the portion allocable to reimbursable programs be recovered from power revenues. We further recommend that a retroactive adjustment be made for all projects where such costs have not been recorded as project costs.

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We would appreciate receiving your comments on the foregoing matters and being advised of any action that you plan to take. We wish to express our appreciation for the cooperation extended to our staff by Corps officials during our review.

Copies of this report are being sent to the Chief, United States Army Audit Agency, Commissioner, Bureau of Reclamation, and Administrator, Bonneville Power Administration.

Sincerely yours,

Allen R. Voss
Allen R. Voss
Associate Director

Lieutenant General F. J. Clarke
Chief of ~~Engineers~~
Corps of Engineers
Department of the Army

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