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UNITED STATES GENERAL ACCOUNTING OFFICE

REGIONAL OFFICE

ROOM 201 415 FIRST AVENUE NORTH
SEATTLE, WASHINGTON 98109

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JAN 1975

Mr. Donald P. Hodel, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Dear Mr. Hodel

We have completed our audit of the Federal Columbia River Power System (FCRPS) financial statements for the fiscal year ended June 30, 1974. Our review included an examination of the Bonneville Power Administrations' (BPA) accounting records and practices as a basis for evaluating the reasonableness and propriety of BPA's financial statements.

We concluded that BPA's financial procedures and controls are generally adequate. However, some adjustments to BPA's statements were required for FCRPS statement purposes and are commented on here for your information.

1. Our review showed that \$2.7 million of regular interchange power received by BPA in fiscal year 1974 had not been recorded and, therefore, was not included in BPA financial statements. This resulted in an understatement of the Income Statement line item "Purchase and Exchange Power" and Balance Sheet line item "Accounts Payable". The Accounting Section was not aware of the interchange power accrual at June 30, 1974, because BPA does not record interchange power transactions until they are billed and no procedures currently exist which require the Accounting Section to accrue these costs at year end for financial statement purposes.

We discussed the matter with financial management officials of your staff and they agreed to establish procedures that would assure that appropriate journal entries for accrued interchange power are made. They also appropriately adjusted the fiscal year 1974 financial statements.

2. The Income Statement line item "Sales of Electric Energy" and the Balance Sheet line item "Accounts Receivable" were overstated

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by about \$660,000 as a result of over-accruing revenues due from Puget Sound Power and Light Company. This amount represented the difference between the \$3,950,000 account receivable due from the Company for a 10-month period that was estimated by the Accounting Section for statement purposes and the \$3,290,000 estimate prepared by the Power Billing Unit based on its records. Financial management officials of your staff told us that differences of this kind will be minor in future years under the new power sales contracts now being negotiated because they will provide for monthly rather than annual billings. After reviewing the support for this adjustment, they made the necessary adjusting entry to the financial statements.

3. The balance of undistributed costs in BPA's clearing accounts at June 30, 1974, was \$463,000. BPA's Accounting Principles and Standards state that these accounts should be maintained at a near zero balance.

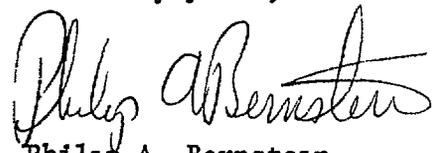
The large balance of undistributed costs was due to the activity in the Washougal Material Yard group of clearing accounts. These accounts accumulate the indirect costs associated with steel purchases for BPA's construction program for distribution to individual construction work orders. Unlike the other clearing accounts where costs are distributed annually, the costs recorded in this group of accounts are distributed over a 3-year cycle in order to assign costs equally to the benefiting projects. Therefore, the Washougal Material Yard accounts may have a substantial balance at the end of each fiscal year.

Following our discussion of these undistributed amounts, a financial management official made an adjusting entry for \$463,000 in the Balance Sheet to reduce "Other Assets and Deferred Charges" and increase "Construction Work in Progress". BPA officials told us that they are currently reviewing the clearing account procedures for proper presentation of future year end balances.

A copy of this letter is being sent to the Director, Office of Audit and Investigation, Department of the Interior.

We wish to acknowledge the courtesy and cooperation given our representatives during this review. We especially want to express our appreciation for the excellent cooperation on the part of the Financial Systems Staff in the statement and footnote preparations.

Sincerely yours,



Philip A. Bernstein
Regional Manager