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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE

3086 FEDERAL OFFICE BUILDING 909 FIRST AVENUE
SEATTLE, WASHINGTON 98104

MAR 4 1971

Mr. Harold T. Nelson, Regional Director
Region 1, U.S. Bureau of Reclamation
Department of the Interior
P. O. Box 8008
Boise, Idaho 83707

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Dear Mr. Nelson:

We have completed our review of the accounts and accounting procedures of the power generating and related multipurpose projects in Region 1, Bureau of Reclamation, that participated in the Federal Columbia River Power System (FCRPS) during the fiscal year ended June 30, 1970. The review was directed toward determining the reasonableness and propriety of the projects' financial statements submitted to Bonneville Power Administration (BPA) for consolidation and inclusion in the fiscal year 1970 FCRPS financial statements. Our review included an evaluation of current administrative procedures and controls and included such tests of financial transactions as we deemed necessary.

We are pleased to report that generally we found the administrative procedures and controls to be adequate. Most errors noted were insignificant and were informally discussed and resolved with your staff during the audit. In addition, our audit disclosed the following matters.

Your staff revised two of the statements for the Columbia Basin Project, (1) Amount and Allocation of Plant Investment Schedule A, and (2) Statement of Project Cost and Repayment. The revisions were made because of allocation errors in the computation of irrigation assistance required from power revenues for the Columbia Basin and Teton projects.

Toward the end of our audit we noted that there has sometimes been delays in recording completed plant additions in the plant-in-service general ledger accounts. We noted this for the Columbia Basin project. Construction work under certain Cost Authorities for this project was completed in fiscal year 1969 or earlier, but was not transferred to completed plant-in-service until fiscal year 1970. Delays in recording completed plant additions results in understatement of interest on the Federal investment in addition to understatement of the plant-in-service account and overstatement of the construction work-in-process account. You may want to look into this and consider procedures to provide for more timely communication between the individual Project Engineers' Offices and the Regional Finance Office upon completion of a Cost Authority.

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Certain matters disclosed by prior years' audits remain to be resolved for improved reporting on the financial statements. These matters include (1) the capitalization of interest during construction for Bureau power projects constructed prior to 1956, (2) the determination of the proper base to be used to compute interest expense, (3) the recording of interest expense on the Columbia Basin Project investment suballocated to downstream river regulation prior to 1963, and (4) the reporting of accrued unused annual leave as a liability.

During calendar year 1970 we recommended in two separate letter reports directed to the Secretary of the Interior and the Commissioner of Reclamation that the Bureau of Reclamation (1) capitalize interest costs during construction as part of the Federal investment for all power projects constructed prior to 1956 and compute accumulated annual interest expense on the basis of such noncapitalized costs, (2) compute interest expense on net additions to the Federal investment during the year and make a retroactive adjustment for such interest expense not recorded in past years, and (3) schedule such noncapitalized interest costs and interest expense for repayment to the Treasury from power revenues. We understand the Bureau is currently considering these recommendations.

During our fiscal year 1969 audit we discussed with Bureau officials the need to include the imputed cost for space provided by the General Services Administration which was then considerably higher than earlier years due to the Bureau's move to the recently completed Federal Office Building. Bureau officials informed us during the current audit that the imputed rental cost will be included in the formal accounts and financial statements for the Bureau projects beginning in fiscal year 1971.

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

We wish to express our appreciation to you and your staff for the courtesy and cooperation given our representatives during this review.

Sincerely yours,

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William N. Conrardy
Regional Manager

cc: Director, Office of Survey and
Review, Department of the Interior