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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Review Of The United States Synthetic Fuels Corporation's Financial Statements For The Year Ended September 30, 1982

GAO reviewed the report on the audit of the United States Synthetic Fuels Corporation's (SFC's) fiscal 1982 financial statements and the work of SFC's independent certified public accountant. GAO found nothing to indicate that the opinion of SFC's independent accountant is inappropriate or cannot be relied on.

In the opinion of SFC's independent accountant, SFC's financial statements present fairly its financial position at September 30, 1982, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



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GAO/AFMD-83-52
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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206331

To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes the results of our review of the United States Synthetic Fuels Corporation's (SFC's) financial statements for the year ended September 30, 1982. SFC was established to provide financial assistance to further the development of domestic synthetic fuels.

We are required by 42 U.S.C. 8777 to audit the accounts of SFC not less than every 3 years. Also, this law requires SFC to retain a nationally recognized public accounting firm to perform an annual audit of its accounts.

Peat, Marwick, Mitchell & Co. (PMM&Co.), a certified public accounting firm, audited and rendered an opinion on the SFC's 1982 financial statements. In the opinion of PMM&Co., SFC's financial statements present fairly its financial position at September 30, 1982, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis. PMM&Co. also audited the previous year's financial statements rendering the same opinion, with which we concur.

In order to avoid duplication and unnecessary expense, and to make the best use of our limited resources, we believe that we can best discharge our legal responsibilities by reviewing and, to the extent appropriate, relying on the work and report of SFC's independent certified public accountant. We believe this approach provides a reasonable and cost effective means of assuring the Congress that SFC's activities are fairly presented.

Accordingly, we reviewed the workpapers and audit report of PMM&Co. to determine the extent to which we could rely on SFC's financial statements. We performed such tests of PMM&Co.'s workpapers and audit report as we considered necessary to ensure that:

- SFC's financial statements were prepared in accordance with generally accepted accounting principles.
- PMM&Co.'s audit was made in accordance with generally accepted government auditing standards.
- PMM&Co. had established the necessary policies and procedures to comply with other applicable professional standards.

Our review was conducted at SFC's and PMM&Co.'s offices in Washington, D.C.

During our review of PMM&Co.'s workpapers and audit report, nothing came to our attention that would indicate that PMM&Co.'s opinion on SFC's 1982 financial statements was inappropriate. We therefore concur with, and transmit to the Congress, PMM&Co.'s opinion and SFC's 1982 financial statements (app. I).

We are sending copies of this report to the Director of the Office of Management and Budget, the Chairman of the House Judiciary Committee, and the Board of Directors of the United States Synthetic Fuels Corporation.

A handwritten signature in dark ink, reading "Charles A. Bowsher". The signature is written in a cursive, flowing style with a large initial "C".

Comptroller General
of the United States

UNITED STATES SYNTHETIC FUELS CORPORATION

Financial Statements

September 30, 1982 and 1981

(With Accountants' Report Thereon)



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

1990 K Street, N.W.
Washington, D.C. 20006

The Board of Directors
United States Synthetic Fuels Corporation:

We have examined the statements of financial condition of United States Synthetic Fuels Corporation as of September 30, 1982 and 1981 and the related statements of operations, equity in net assets and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the financial and compliance elements of the "Standards for Audits of Governmental Organizations, Programs, Activities and Functions" issued by the U.S. Comptroller General in 1981 and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of United States Synthetic Fuels Corporation at September 30, 1982 and 1981 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

October 29, 1982



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

1990 K Street, N.W.
Washington, D.C. 20006

The Board of Directors
United States Synthetic Fuels Corporation:

We have examined the financial statements of United States Synthetic Fuels Corporation for the year ended September 30, 1982, and have issued our report thereon dated October 29, 1982. As part of our examination, we made a study and evaluation of the system of internal accounting control of the Corporation to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions." For the purpose of this report, we have identified the internal accounting controls in the following significant categories:

- (1) Capital note
- (2) Administrative expenses
 - (a) Payroll expense
 - (b) Contractual services
 - (c) Other administrative expenses

Our study and evaluation included all of the control categories listed above except that we did not evaluate the internal accounting controls over the capital note category because we considered it more efficient to expand substantive tests and to place no reliance on the controls.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of United States Synthetic Fuels Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.



Peat, Marwick, Mitchell & Co

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of United States Synthetic Fuels Corporation taken as a whole or on any of the categories of internal accounting controls identified in the first paragraph. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

This report is intended solely for the use of management of United States Synthetic Fuels Corporation, the General Accounting Office and other associated Federal organizations and should not be used for any other purpose.

Peat, Marwick, Mitchell & Co.

October 29, 1982



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

1990 K Street, N.W.
Washington, D.C. 20006

The Board of Directors
United States Synthetic Fuels Corporation:

We have examined the financial statements of the United States Synthetic Fuels Corporation (Corporation) as of and for the year ended September 30, 1982, and have issued our report thereon dated October 29, 1982. Our examination was made in accordance with generally accepted auditing standards and the provisions of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (Standards), promulgated by the Comptroller General, which pertain to financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, we have reviewed the provisions of the Energy Security Act (PL 96-294) to determine the material compliance requirements which may have a financial impact.

In our opinion, for the tested operations and records, the United States Synthetic Fuels Corporation complied with the material compliance requirements of the Energy Security Act (PL 96-294) referred to above. Further, based upon our examination and the procedures referred to above, for those operations and records not tested, nothing came to our attention to indicate that the Corporation had not complied with the compliance requirements referred to above.

Peat, Marwick, Mitchell & Co.

October 29, 1982

UNITED STATES SYNTHETIC FUELS CORPORATION

Statements of Financial Condition

September 30, 1982 and 1981

<u>Assets</u>	<u>1982</u>	<u>1981</u>
Cash in bank	\$ 10,362	-
Petty cash	1,168	650
Accounts receivable	3,774	-
Prepaid expenses	75,369	29,063
Employee expense advances	5,050	4,188
Deposits	6,525	37,371
Deferred charges	27,096	-
Restricted cash (note 6)	525,723	-
Furniture and equipment, at cost, less accumulated depreciation of \$89,933 in 1982 and \$9,961 in 1981	576,604	85,795
Leasehold improvements, at cost, less accumulated amortization of \$61,712 in 1982 and \$8,392 in 1981	342,230	16,785
	<u>\$ 1,573,901</u>	<u>173,852</u>

Liabilities and Equity in Net Assets

Liabilities:

Outstanding checks not presented for payment (note 2)	62,723	171,749
Accounts payable	203,901	66,944
Accrued expenses	802,139	378,535
Withheld taxes	93,634	16,447
Accrued pension liability (note 5)	464,732	-
Accrued annual leave	203,356	70,727
Total liabilities	<u>1,830,485</u>	<u>704,402</u>

Equity in net assets:

Capital note (note 1)	17,632,893	6,170,261
Accumulated excess of expenses over revenue	(17,889,477)	(6,700,811)
	(256,584)	(530,550)

Commitments and contingencies (notes 4 and 7)

\$ <u>1,573,901</u>	<u>173,852</u>
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See accompanying notes to financial statements.

UNITED STATES SYNTHETIC FUELS CORPORATION

Statements of Operations

Years ended September 30, 1982 and 1981

	<u>1982</u>	<u>1981</u>
Revenue from loan guarantee fee (note 6)	\$ <u>525,723</u>	<u>-</u>
Administrative expenses (note 3):		
Personnel costs	6,383,896	3,053,312
Contractual services	639,445	1,415,253
Office occupancy	1,867,468	950,149
Administrative services	1,110,535	528,604
Travel	407,667	163,933
Employee relocation and recruitment	486,364	244,875
Depreciation and amortization expense	133,292	18,353
Miscellaneous	<u>36,020</u>	<u>3,328</u>
	11,064,687	6,377,807
Inspector general	<u>443,647</u>	<u>318,204</u>
Total administrative expenses	11,508,334	6,696,011
Generic studies (note 3) - contractual services	<u>206,055</u>	<u>4,800</u>
Total expenses	<u>11,714,389</u>	<u>6,700,811</u>
Excess of expenses over revenue	\$ <u>(11,188,666)</u>	<u>(6,700,811)</u>

See accompanying notes to financial statements.

UNITED STATES SYNTHETIC FUELS CORPORATION

... Statements of Equity in Net Assets

Years ended September 30, 1982 and 1981

	<u>Capital note</u>	<u>Accumulated excess of expenses over revenue</u>	<u>Total</u>
Draws on capital note	\$ 6,170,261	-	6,170,261
Excess of expenses over revenue	<u>-</u>	<u>(6,700,811)</u>	<u>(6,700,811)</u>
Balance, September 30, 1981	6,170,261	(6,700,811)	(530,550)
Draws on capital note	11,462,632	-	11,462,632
Excess of expenses over revenue	<u>-</u>	<u>(11,188,666)</u>	<u>(11,188,666)</u>
Balance, September 30, 1982	\$ <u>17,632,893</u>	<u>(17,889,477)</u>	<u>(256,584)</u>

See accompanying notes to financial statements.

UNITED STATES SYNTHETIC FUELS CORPORATION
 Statements of Changes in Financial Position
 Years ended September 30, 1982 and 1981

	<u>1982</u>	<u>1981</u>
Funds used:		
Excess of expenses over revenue	\$ 11,188,666	6,700,811
Add items not requiring funds - depreciation and amortization	<u>(133,292)</u>	<u>(18,353)</u>
Funds used in operations	11,055,374	6,682,458
Purchase of furniture and equipment	570,781	95,756
Purchase of leasehold improvements	378,765	25,177
Increase in:		
Cash in bank	10,362	-
Petty cash	518	650
Accounts receivable	3,774	-
Prepaid expenses	46,306	29,063
Employee expense advances	862	4,188
Restricted cash	525,723	-
Deferred charges	27,096	-
Deposits	-	37,371
Decrease in outstanding checks not presented for payment	<u>109,026</u>	<u>-</u>
	\$ <u>12,728,587</u>	<u>6,874,663</u>
Funds provided:		
Draws on capital note (note 1)	11,462,632	6,170,261
Increase in:		
Accounts payable	136,957	66,944
Accrued expenses	423,604	378,535
Withheld taxes	77,187	16,447
Accrued pension liability	464,732	-
Accrued annual leave	132,629	70,727
Outstanding checks not presented for payment	-	171,749
Decrease in deposits	<u>30,846</u>	<u>-</u>
	\$ <u>12,728,587</u>	<u>6,874,663</u>

See accompanying notes to financial statements.

UNITED STATES SYNTHETIC FUELS CORPORATION

Notes to Financial Statements

September 30, 1982 and 1981

(1) The Corporation

The United States Synthetic Fuels Corporation (Corporation) was created on June 30, 1980 by the Energy Security Act (P.L. 96-294) as a Federal entity of limited duration for the purpose of providing financial assistance for the development of commercial synthetic fuel projects. The Corporation began operations on October 8, 1980.

On February 8, 1982, the President of the United States declared the Corporation "operational", an executive action required by law to permit the transfer of responsibility for two projects which had been approved and were being managed by the Department of Energy, and the transfer of authority to obligate certain additional funds in the Energy Security Reserve.

Funds have been made available to the Corporation in the Energy Security Reserve Fund in the United States Treasury as follows:

Appropriations provided by the Supplemental Appropriations Act of 1980 (P.L. 96-304)	\$ 12.21 billion
Appropriations transferred from Department of Energy - uncommitted at time of transfer	2.69 billion
Appropriations transferred from Department of Energy - committed at time of transfer:	
For Union Oil Company of California Project (see note 7)	.40 billion
For the Oil Shale Corporation Project (see note 6)	<u>1.23 billion</u>
Total	\$ <u>16.53</u> billion

The Corporation is subject to annual expenditure limits of \$35,000,000 for administrative expenses including \$2,000,000 for inspector general operations. For each fiscal year commencing after September 30, 1980, these limitations shall be increased as of October 1 each year by an amount equal to the percentage increase in the Gross National Product implicit price deflator as published by the Department of Commerce. The Corporation is authorized to expend \$10,000,000 per year for generic studies and specific reviews of individual proposals.

(Continued)

UNITED STATES SYNTHETIC FUELS CORPORATION

Notes to Financial Statements

The Corporation draws funds by issuing a noninterest-bearing note payable to the United States Treasury, due September 30, 1997 or upon termination of the Corporation. For the fiscal years ended September 30, 1982 and 1981 the Corporation drew \$11,256,577 and \$6,165,461, respectively, for administrative expenses; and \$206,055 and \$4,800, respectively, for generic studies. Since inception, draws on the note totalled \$17,422,038 for administrative expenses and \$210,855 for generic studies. These amounts have been classified as a capital note in the accompanying financial statements. The obligations of the Corporation under this note will be transferred to the United States Treasury upon transfer of the Corporation's powers, duties, rights and obligations to the United States Treasury pursuant to Section 193 (a) of the Energy Security Act or pursuant to any other provisions of applicable laws.

(2) Summary of Significant Accounting Policies

(a) Funding

Pursuant to a Memorandum of Understanding between the Corporation and the U.S. Treasury effective January 14, 1981 and a note issued by the Corporation to the Secretary of the U.S. Treasury dated January 23, 1981, the Treasury Department Fiscal Service has established and issued to NS&T Bank, N.A. a letter of credit in the amount of \$50,000,000. Drawdowns against the letter of credit are made by the bank as required to fund transactions on a daily basis, obviating the need for the Corporation to maintain a cash balance and thus assuring that budget outlays of the Treasury Department are held to a minimum at any one time. The amount available under the letter of credit at September 30, 1982 and 1981 was \$32,096,667 and \$44,550,467, respectively.

Total draws made on the note were less than administrative expenses because expenses have been recognized by the accrual method of accounting (see note 1).

(b) Furniture, Equipment and Leasehold Improvements

Furniture and equipment purchases and leasehold improvements are recorded at cost. Depreciation is provided on a straight-line basis over the useful life of the furniture and equipment, which is estimated at five to ten years. Amortization of leasehold improvements is provided over the remaining life of the lease.

(Continued)

UNITED STATES SYNTHETIC FUELS CORPORATION

Notes to Financial Statements

(c) Income Taxes

The Corporation is exempt from Federal, state and local income taxes under Section 155 of the Energy Security Act.

(d) Reclassifications

Certain reclassifications of prior years' information have been made to conform with 1982 presentation.

(3) Expense Classification

The financial statements reflect only administrative expenses and generic studies because, as of September 30, 1982, the Corporation had not expended any program funds in connection with financial assistance agreements. Inspector general expenses include personnel costs and an allocation of certain other administrative expenses.

(4) Commitments for Office Space

The Corporation leases its office space under a noncancelable operating lease which expires on April 30, 1987 with options to renew the lease for a total of eleven additional years. The lease requires future rental payments, excluding escalation provisions, as follows:

Fiscal year 1983	\$ 1,927,400
Fiscal year 1984	1,927,400
Fiscal year 1985	1,927,400
Fiscal year 1986	1,927,400
Fiscal year 1987	<u>1,124,317</u>
	<u>\$ 8,833,917</u>

Rent expense totalled \$1,207,622 and \$590,400 for the years ended September 30, 1982 and 1981, respectively.

(Continued)

UNITED STATES SYNTHETIC FUELS CORPORATION

Notes to Financial Statements

(5) Retirement and Saving Plans

All permanent, full-time employees of the Corporation are covered by the noncontributory, defined contribution United States Synthetic Fuels Corporation Retirement Plan. The plan was approved by the Board of Directors on June 17, 1982. Retirement expense of \$464,732 was recorded in 1982, which included cost related to prior years' service of \$190,516. The Corporation will make monthly contributions to the plan based on the amounts accrued for retirement expense. Retirement expense is calculated as a fixed percentage of employee regular compensation.

The Board of Directors also approved the United States Synthetic Fuels Corporation Savings Plan on June 17, 1982. Participation in the plan is voluntary and all permanent, full-time employees are eligible to join. Employee contributions are limited to a maximum of 6% of regular compensation. The Corporation will contribute amounts equal to 100% of participant contributions for a limited time based on individual participants' prior service and thereafter equal to 50% of participant's contributions. The Corporation's contribution under the plan was effective beginning October 16, 1982 and therefore no liability for this plan is included in the financial statements.

(6) Restricted Cash

The restricted cash is a guarantee fee which was transferred from the Department of Energy to the Energy Security Reserve Fund in the U.S. Treasury. The fee transferred related to the loan guarantee for The Oil Shale Corporation's synthetic fuel project. This project was halted in May 1982, and the loan guarantee was terminated and the then outstanding loans were repaid by The Oil Shale Corporation in June 1982. The Corporation is currently examining the limitations on its authority to utilize the guarantee fee and the transferred obligational authority.

(7) Contingencies

At September 30, 1982 the Corporation was contingently liable in connection with financial assistance for a synthetic fuels project transferred from the Department of Energy as follows:

UNITED STATES SYNTHETIC FUELS CORPORATION

Notes to Financial Statements

<u>Project</u>	<u>Form of Financial Assistance</u>	<u>Maximum Contingent Liability</u>
Union Oil Company of California	<u>Price Guarantee</u> Subject to the terms of the July 29, 1981 agreement the Corporation is committed to guarantee the price of up to 20 million barrels of refined aviation and diesel fuel. Aggregate price guarantee payments by the Corporation will not exceed the maximum contingent liability.	\$ <u>.4 billion</u>

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