I-41

REPORT TO
THE CONGRESS OF THE UNITED STATES

EXAMINATION OF
FINANCIAL STATEMENTS OF
COLUMBIA RIVER FEDERAL POWER SYSTEM
FISCAL YEAR 1965

DEPARTMENTS OF THE ARMY AND OF THE INTERIOR

BY

THE COMPTROLLER GENERAL
OF THE UNITED STATES

SEPTEMBER 1966

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114858

SEP 21 1966

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

The General Accounting Office has made an examination of the financial statements of the Columbia River Federal Power System (previously known as the Columbia River Power System) for fiscal year 1965, which were prepared by the Bonneville Power Administration and included in the Administration's 1965 annual report. We are issuing this report to advise the Congress of (1) our opinion on the accompanying financial statements and (2) the progress made to improve financial statement disclosure since our examination of the financial statements for fiscal year 1963.

These financial statements are unlike those prepared by the Bonneville Power Administration for fiscal years 1963 and 1964, which were statements for the Administration only. We reported that, in our opinion, the statements for fiscal year 1963 did not present fairly the results of power operations or the financial position of the integrated power system. (See report B-114858, February 16, 1965.) Our report stated that, until appropriate principles relating to financial statement disclosure were adopted and applied, our continued examination of the Administration's financial statements would serve no useful purpose. Therefore, we did not perform an examination of the financial statements for fiscal year 1964.

The Department of the Interior had accepted the responsibility for preparing consolidated financial statements for the System. Therefore, we had several subsequent discussions with representatives of the Department on the points of difference regarding the fiscal year 1963 financial statements. Several points were resolved during these discussions. A principal agreement reached was to present financial statements showing the combined results of electric power generating, transmitting, and marketing operations, and the financial position of the integrated power system. The financial statements are presented on a cost accounting basis and do not purport to show financial results in terms of repayment of the investment in the commercial power program, either cumulatively or for the fiscal year, on the basis of repayment requirements administratively established by the Department pursuant to law. Another important agreement reached was to disclose the nature and financial effect of substantial accounting changes that have occurred since fiscal year 1962 when statements for the integrated power system were last prepared.

Our report to the Secretary of the Interior on the fiscal year 1965 financial statements, which is included in this report beginning on page 1, expresses our belief that substantial progress has been made in the presentation of the financial status and operations of the integrated power system and that, with continued effort devoted to further improvement, the remaining problems set forth in the notes to the accompanying financial statements would be resolved within a reasonable period of time. The more important remaining problems are summarized on page 3 of our report to the Secretary (B-114858, December 30, 1965).

By letter dated June 30, 1966, commenting on matters included in this report, the Department of the Army advised us that the Corps of Engineers was adopting uniform treatment of multiple-purpose project plant costs and that the compound-interest method would be used to compute depreciation. The views of the Bonneville Power Administration, Corps of Engineers, and Bureau of Reclamation on the other matters to be resolved are included in the notes to the financial statements, and the comments of the Department of the Interior and the Department of the Army are included as appendixes to this report.

In our opinion, the accompanying financial statements, together with the explanatory comments provided in our letter to the Secretary of the Interior (see pp. 1 through 3), present fairly the assets and liabilities of the Columbia River Federal Power System at June 30, 1965, the financial results of its power operations for the year then ended, and the financial effects of the substantial changes in accounting principles and practices adopted between June 30, 1962, and June 30, 1965, in conformity with principles and standards of accounting prescribed for executive agencies of the Federal Government by the Comptroller General of the United States, except for the lack of firm cost allocations described in note 5 to the financial statements--the financial effect of which is not now determinable.

B-114858

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of the Interior; the Secretary of the Treasury; the Secretary of Defense; and the Secretary of the Army.

Elmer B. Staats
Comptroller General
of the United States

Contents

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

December 30, 1965

B-114858

Honorable Stewart L. Udall
Secretary of the Interior
Washington D. C.

Dear Mr. Secretary:

The General Accounting Office has examined the accompanying financial statements of the Columbia River Federal Power System for fiscal year 1965, which were prepared by the Bonneville Power Administration. The designation Columbia River Federal Power System (previously the Columbia River Power System) is used to describe the integrated power system in the Pacific Northwest consisting of (1) power-generating facilities of the Corps of Engineers (Civil Functions), Department of the Army, and of the Bureau of Reclamation, Department of the Interior, and (2) transmission facilities of the Bonneville Power Administration. The Administration markets the power generated by the integrated system.

Our examination of the financial statements was made in accordance with generally accepted auditing standards and included such tests of the accounting records of the Corps of Engineers, the Bureau of Reclamation, and the Bonneville Power Administration and such other auditing procedures as we considered necessary in the circumstances. Our last examination of financial statements of the system was made for fiscal year 1963. Although no examination was made of fiscal year 1964 statements, our examination of fiscal year 1965 financial statements included appropriate tests of transactions--recorded in the accounts during fiscal year 1964--to determine the reasonableness of the account balances at the beginning of fiscal year 1965. Our examination was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

The accompanying statements present the combined financial results of operations in the generating, transmitting, and marketing of electric power and the financial position of the integrated power system. Combined statements for the integrated power system were last prepared for fiscal year 1962. The financial statements prepared for fiscal years 1963 and 1964 were statements of the Bonneville Power Administration only. Accordingly, the financial statements of the Columbia River Federal Power System for fiscal year 1965 have not been prepared on a comparative basis. Also, a statement of sources and application of funds for fiscal year 1965 has not been prepared. We have suggested that this information be included as part of the financial statements for future years. The Administration has agreed to present such statements beginning with fiscal year 1966.

The method of measuring the financial condition and operating results of the system has changed substantially in the past 3 fiscal years. Adjustments made as a result of these changes primarily account for the $145.6 million increase in accumulated net power revenues from $57.2 million at June 30, 1962, to $202.8 million at June 30, 1965. (See note 9 of the accompanying statements.) The conversion from the straight-line method of depreciation to the compound-interest method for facilities throughout the system accounts for about $131.7 million of this increase. (See explanation in note 3.) We concurred in this change.

Under the compound-interest method of computing depreciation, the annual provisions increase each year during the period used for the depreciable life of the asset; whereas, under the straight-line method of computing depreciation, equal annual amounts are provided for depreciation. Accordingly, under the latter method of computing depreciation, the combined amount recorded for depreciation and interest on the unrepaid investment is high during the early life of the asset and decreases as interest on the investment decreases because of repayments on the investment, whereas, under the compound-interest method of computing depreciation, the combined amount recorded for depreciation and interest tends to be about the same for each year because the provision for depreciation increases as interest on the investment decreases. At the end of the depreciable life of the asset the total amounts computed under each method would be equal--only the yearly allocations would have differed.

As applied to the facilities of the Columbia River Federal Power System, the compound-interest method for determining depreciation conforms to the method used to determine a factor for amortization of capital investment in establishing rates charged for power deliveries to customers and to measure requirements for repayment of capital investment, except that the period of years during which depreciation is assigned as an operating cost is based on the composite economic service lives of the assets. The composite economic service lives are generally longer than the 50-year periods used in establishing power rates and repayment schedules. In the fiscal year 1963, the Administration changed the method of computing depreciation for the transmission facilities from the straight-line to the compound-interest method but the Bureau and the Corps continued computing depreciation for generating projects by the straight-line method.

We suggested to the Department of the Interior that depreciation for transmission facilities and for generating projects be computed on a uniform basis. The Department proposed, and we agreed, that depreciation for generating projects be computed by the compound-interest method and that the depreciation be included in the financial statements although it would not be recorded in the project accounts until adopted by the Corps.

The Columbia River Federal Power System is required to provide from its power revenues repayment to the Federal Government for the costs of irrigation facilities that water users are unable to repay. The contribution required to provide this assistance to irrigation amounted to $335.7 million at June 30, 1965. The Administration estimates that repayment of this obligation will begin in 1997, after the repayment of the major portion of the power investment. For purposes of the financial statements of the power system, the amount for irrigation assistance from power revenues is shown as a deferred charge and a related liability.

In a report on our examination of financial statements prepared by Bonneville Power Administration for fiscal year 1963, we expressed the opinion that those financial statements did not fairly present the results of power operations for the year or the financial position of the integrated power system at June 30, 1963 (B-114858, February 16, 1965). The primary reasons for our adverse opinion were that the cost of generating power marketed by the Administration had not been properly disclosed, firm cost allocations were lacking for nine generating projects, and the effect of following accounting practices that were inconsistent with those of prior years was not adequately disclosed in the notes to the statements. Also, we concluded that, until appropriate principles relating to financial statement disclosures were adopted and applied, our continued examination of the Administration's financial statements would serve no useful purpose.

The points of difference regarding the fiscal year 1963 financial statements were subsequently discussed by representatives of our Office, the Office of the Secretary of the Interior, and the Bonneville Power Administration. These discussions led to the adoption of several improvements in the presentation of the financial status and operations of the integrated power system. We are of the view that substantial progress has been made in the presentation of the financial aspects of these operations and that, with continuing effort devoted to further improvement, the remaining problems, referred to below, will be resolved within a reasonable period of time.

The notes to the accompanying financial statements indicate that a number of matters remain to be resolved for improved disclosure of the financial position and results of operations of the integrated power system. The more important of these, described in notes 3 through 7, are (1) the need to establish uniform composite service lives of turbines and generators for use in computing depreciation, (2) the inconsistency in the capitalization of interest costs during construction, (3) the inconsistency in capitalization of preliminary survey and investigation costs, (4) the exclusion from the accounts of the costs applicable to power-system operations for space rental and audit service furnished by other Federal agencies, and (5) the need for the Corps to record in the official accounting records depreciation of plant assets as determined under the compound-interest method.

The accounts and financial statements are subject to adjustment because firm allocations of the cost of constructing joint-use facilities at 8 of the 16 generating projects in operation at June 30, 1965, had not been made to power and nonpower purposes. (See note 5 to the statements.) The cost of joint-use facilities at the 8 projects amounted to $459.5 million at June 30, 1965, of which $224.9 million was tentatively allocated to power. Changes in allocations may require significant adjustments because of the recent changes illustrated in note 5. The changes in fiscal year 1963 for The Dalles, McNary, and Columbia Basin projects resulted in transferring about $63.0 million of the cost of joint-use facilities from power to nonpower purposes and increasing annual net power revenues by about $2.8 million. Further, the amount of net power revenues accumulated before fiscal year 1963 was increased $5.0 million because the accounts for The Dalles and McNary projects were adjusted retroactively to the start of project operations. In contrast, the change for the Ice Harbor Project illustrates that adjustments to allocations can be relatively insignificant.

In our opinion, the accompanying financial statements, together with the explanatory comments provided by us above, present fairly the assets and liabilities of the Columbia River Federal Power System at June 30, 1965, the financial results of its power operations for the year then ended, and the financial effects of the substantial changes in accounting principles and practices adopted between June 30, 1962, and June 30, 1965, in conformity with principles and standards of accounting prescribed for executive agencies of the Federal Government by the Comptroller General of the United States, except for the lack of firm construction cost allocations described in the preceding paragraph--the financial effect of which is not now determinable.

Copies of this report are being sent today to the Administrator, Bonneville Power Administration, and to the Commissioner of Reclamation.

Sincerely yours,

Frank H. Weitzel

Acting Comptroller General
of the United States

Enclosure

The Honorable
The Secretary of the Interior

FINANCIAL STATEMENTS

UNITED STATES OF AMERICA
COLUMBIA RIVER FEDERAL POWER SYSTEM
COMBINED STATEMENT OF COMMERCIAL POWER REVENUES AND EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 1965

EXHIBIT 1

(In thousands of dollars)

	Fiscal Year 1965
OPERATING REVENUES:	
Sales of electric energy by Bonneville Power Administration:	
Publicly owned utilities	41,738
Privately owned utilities	5,537
Federal agencies	6,746
Aluminum industry	22,998
Other industry	4,950
Total	81,969
Other operating revenues:	
Wheeling revenues	4,397
Other revenues	3,746
Total	8,143
Total operating revenues	90,112
OPERATING EXPENSES:	
Purchased power	1,615
Operation	16,695
Maintenance	10,349
Depreciation (Note 3)	19,952
Property losses	10
Total operating expenses	48,621
Net operating revenues	41,491
INTEREST AND OTHER DEDUCTIONS (Note 4):	
Interest on Federal investment	36,130
Interest charged to construction	906*
Miscellaneous income deductions, net	5*
Net interest and other deductions	35,219
NET REVENUES	6,272
ACCUMULATED NET REVENUES:	
Balance at beginning of year	129,790
Net revenues - current year	6,272
Prior years adjustments (Note 8)	66,729
Balance at end of year	202,791

*Deduction

"Notes to the financial statements" are an integral part of this statement.

UNITED STATES OF AMERICA
COLUMBIA RIVER FEDERAL POWER SYSTEM
COMBINED STATEMENT OF ASSETS AND LIABILITIES
OF THE COMMERCIAL POWER PROGRAM
AS OF JUNE 30, 1965
(In thousands of dollars)

ASSETS

	June 30, 1965
FIXED ASSETS:	
Completed plant (Schedule A)	1,776,934
Less accumulated depreciation (Note 3)	189,767
	1,587,167
Construction work in progress (Schedule A)	318,044
Total fixed assets	1,905,211
CURRENT ASSETS:	
Unexpended funds	112,516
Special funds	1,025
Accounts receivable	13,211
Materials and supplies	4,906
Total current assets	131,658
SPECIAL FUNDS:	
Trust funds	1,239
Advances	--
Total special funds	1,239
DEFERRED CHARGE FOR PAYMENT OF IRRIGATION ASSISTANCE (Schedule A)	335,693
OTHER ASSETS AND OTHER DEFERRED CHARGES:	
Retirement work in progress	1,611
Other assets and deferred charges	905
Total other assets and deferred charges	2,516
	2,376,317

"Notes to the financial statements" are an integral part of this statement.

LIABILITIES

	June 30, 1965
INVESTMENT OF U.S. GOVERNMENT:	
Congressional appropriations	2,424,356
Revenues transferred to continuing fund	3,909
Transfers from other Federal agencies, net	16,538
Interest on Federal investment (Note 4)	488,047
Gross Federal investment	2,932,850
Less funds returned to U.S. Treasury	1,129,334
Net investment of U.S. Government	1,803,516
ACCUMULATED NET REVENUES:	
Balance at June 30, 1964	129,790
Net revenues - current year (Exhibit 1)	6,272
Prior years adjustments (Note 8)	66,729
Balance at June 30, 1965	202,791
LIABILITY OF U.S. GOVERNMENT FOR PAYMENT OF IRRIGATION ASSISTANCE (Schedule A)	335,693
CURRENT LIABILITIES AND OTHER CREDITS:	
Accounts payable	29,738
Employees' accrued leave	3,003
Trust fund advances	1,239
Other deferred credits	337
Total current liabilities and other credits	34,317
	2,376,317

UNITED STATES OF AMERICA
COLUMBIA RIVER FEDERAL POWER SYSTEM
AMOUNT AND ALLOCATION OF PLANT INVESTMENT
AS OF JUNE 30, 1965
PROJECTS IN SERVICE AND UNDER CONSTRUCTION
(In thousands of dollars)

Project	Total	COMMERCIAL POWER Completed Plant	Construction Work In Progress	Total	Returnable From Commercial Power Revenues
Projects in service					
Transmission facilities (BPA)	613,627	569,917	43,710	613,627	--
Albeni Falls (CE)	32,360	31,801	--	31,801	--
Boise (BR)	65,425	4,809	4	4,813	10,862
Bonneville (CE)	89,111	61,108	151	61,259	--
Chief Joseph (CE)	155,374	155,260	--	155,260	--
Columbia Basin (BR)	564,740	171,168	1,917	173,085	282,404
Cougar (CE)	56,843	16,959	--	16,959	--
Detroit-Big Cliff (CE)	66,292	41,933	2	41,935	--
Hills Creek (CE)	48,710	14,013	--	14,013	--
Hungry Horse (BR)	102,169	77,358	142	77,500	--
Ice Harbor (CE)	135,575	93,084	314	93,398	--
Lookout Point-Dexter (CE)	94,187	41,908	1	41,909	--
McNary (CE)	303,732	256,602	37	256,639	--
Minidoka (BR)	36,435	1,815	--	1,815	--
Palisades (BR)	59,793	10,475	--	10,475	17,369
The Dalles (CE)	265,367	224,128	8	224,136	--
Yakima (BR)	63,615	4,596	1	4,597	9,998
Projects under construction					
Dworshak (CE)	12,399	--	11,048	11,048	--
Green Peter-Foster (CE)	42,932	--	16,370	16,370	--
John Day (CE)	252,546	--	171,692	171,692	--
Little Goose (CE)	17,378	--	12,809	12,809	--
Lower Granite (CE)	3,033	--	2,388	2,388	--
Lower Monumental (CE)	73,317	--	57,450	57,450	--
Irrigation assistance at 9 projects having no power generation	15,060	--	--	--	15,060
Total	3,170,020	1,776,934	318,044	2,094,978	335,693

BPA - Bonneville Power Administration
CE - Corps of Engineers Project
BR - Bureau of Reclamation Project
(a) - Non-reimbursable road costs
"Notes to the financial statements" are an integral part of this statement.

ALLOCATED TO:

IRRIGATION		NONREIMBURSABLE					% of Total Plant Investment Returnable from Commercial Power Revenues
Returnable From Other Sources	Total Irrigation	Navigation	Flood Control	Fish and Wildlife	Recreation	Other	
--	--	--	--	--	-	--	100.0
--	--	133	172	--	254	--	98.3
34,810	45,672	--	14,940	--	--	--	24.0
--	--	27,852	--	--	--	--	68.7
--	--	--	--	--	114	--	99.9
61,423	343,827	1,000	46,325	--	--	503	80.7
2,772	2,772	574	36,538	--	--	--	29.8
3,396	3,396	131	20,419	--	--	411	63.3
4,986	4,986	623	29,088	--	--	--	28.8
--	--	--	24,669	--	--	--	75.9
--	--	41,466	--	--	711	--	68.9
5,068	5,068	853	46,282	--	75	--	44.5
--	--	46,830	--	--	263	--	84.5
34,298	34,298	--	--	--	28	294	5.0
9,348	26,717	--	22,456	--	145	--	46.6
--	--	41,231	--	--	--	--	84.5
47,868	57,866	--	--	1,152	--	--	23.0
--	--	403	689.	--	44	215	89.1
1,753	1,753	389	24,327	--	93	--	38.1
--	--	53,006	8,464	--	619	18,765[a]	68.0
--	--	4,463	--	--	17	89	73.7
--	--	631	--	--	14	--	78.7
--	--	15,500	--	--	367	--	78.4
--	15,060	--	--	--	--	--	100.0
205,722	541,415	235,085	274,369	1,152	2,744	20,277	76.7

UNITED STATES OF AMERICA
COLUMBIA RIVER FEDERAL POWER SYSTEM
NOTES TO THE FINANCIAL STATEMENTS

Note 1. Financial reporting policy for fiscal year 1965

The reporting policy adopted for the Columbia River Federal Power System (CRFPS) for fiscal year 1965 was developed after extensive conferences among personnel of the Office of the Secretary of the Interior, the General Accounting Office, Bonneville Power Administration (BPA), Corps of Engineers (Corps), and the Bureau of Reclamation (Bureau). The plan agreed upon is a consolidation of the commercial power financial data submitted by each of the entities of the power system. (See Note 2). Nonpower features are not included in the consolidation of financial data included in Exhibit 1, Statement of Commercial Power Revenues and Expenses; or in Exhibit 2, Statement of Combined Assets and Liabilities of the Commercial Power Program, except that the liability for payment of irrigation construction costs assigned for repayment from commercial power revenues is reflected in Exhibit 2. The U.S. Government's investment in plant of all features of the multiple purpose projects is shown in Schedule A, which discloses also the percentage of plant investment in each project which is to be returned from commercial power revenues.

These financial statements are presented on the accrued cost accounting basis, which includes depreciation as one of the elements of cost. The statements do not purport to show financial results on a repayment basis, either for the fiscal year or cumulatively. The average composite service life of 69.8 years for the generating projects of the system, upon which depreciation is based, is considerably longer than the 50-year repayment period reaffirmed by the Secretary of the Interior in 1963 as his understanding of the intent of the Congress. Hence, depreciation charges within the 50-year period are considerably less than repayment requirements for the same period. Wholesale power rates are based upon the 50-year repayment requirement. Accumulated Net Revenues on the accrued cost basis, therefore, are not a measure of the adequacy of wholesale power rates to complete repayment in fifty years.

Note 2. Composition of the Columbia River Federal Power System

The Columbia River Federal Power System (previously called Columbia River Power System) is the name applied to the Bonneville Power Administration's transmission system and the hydroelectric generating plants constructed and operated by the Corps of Engineers and Bureau of Reclamation for which the Administration is the power marketing agent. The CRFPS, however, is not an official government agency, nor is it an individual legal entity. BPA, the Corps, and the Bureau are separate agencies, separately managed and financed, with separate accounting systems. However, the transmission system and generating plants are operated as an integrated power system, and the financial statements are prepared under the name of Columbia River Federal Power System to show the financial results of operations on a system basis.

At June 30, 1965, there were ten Corps and six Bureau projects in service for which BPA is the power marketing agent. Total installed generating capacity at all 22 powerplants (one project includes three separate powerplants, while four others include two powerplants, thus making a total of 22) was 6,678,150 kilowatts. The projects in service and under construction at June 30, 1965, are listed in Schedule A.

At June 30, 1965, the transmission system included 262 substations with a transformer capacity of 15,284,655 kilovolt-amperes, and 9,327 circuit miles of transmission lines.

Note 3. Depreciation

Depreciation policies and procedures for the Columbia River Federal Power System have changed considerably in recent years, as outlined under the agency headings below. The major change was the adoption of the compound interest method of depreciation for the entire system in place of the straight line method previously used. Representatives of the agencies and the General Accounting Office have agreed that the compound interest method is an acceptable method for this power system, and this method was adopted for the financial statements. The adjustment for the generating projects in fiscal year 1965 was made retroactive to the start of operations for each major project, in order to be consistent with the retroactive adjustment made for the transmission system in fiscal year 1963. A significant feature of the compound interest method is that depreciation charges are lower in the early years of the project's life and higher in the later years. This method produces a more level annual charge to operations when combined with interest expense than does the straight line method of depreciation, since interest expense is higher in the early years and lower in the later years.

Bonneville Power Administration

BPA changed from the straight line method of depreciation to the compound interest method with an interest factor of 2-1/2% for the accounts of the transmission system starting in fiscal year 1963. An adjustment was made retroactive to the start of transmission operations and incorporated into the financial statements for that year. The change had the effect of increasing accumulated net revenues by $36,021,000 through June 30, 1962, and $2,831,000 for fiscal year 1963.

Bureau of Reclamation

Through fiscal year 1962 the Bureau maintained memorandum accounts for depreciation which were used for system financial statement purposes. In 1963 the Bureau adopted the principles of depreciation accounting in their official accounts, using the straight line method for all projects. (The Columbia Basin Project had used the compound interest method in the memorandum accounts with an interest factor of 2-1/2%.) They recorded as accumulated depreciation the balances in the "Reserve for Replacements," which had been maintained in their official accounts. Concurrently, the Bureau revised service lives for certain asset groups. The official accounts are now used for system financial statement purposes. The net effect of all of these changes was to increase accumulated net revenues through fiscal year 1962 by $18,916,000.

BPA presented financial data for fiscal year 1964 for the projects of the system using the compound interest method of depreciation. Accordingly, BPA changed the Bureau's straight line depreciation expense to an estimated amount of compound interest depreciation expense. This adjustment increased net revenues $2,136,000 for fiscal year 1964. (See Note 8.a.(1))

The Bureau adopted the compound interest method of depreciation in their official project accounts in fiscal year 1965, with an interest factor of 3% (2-1/2% for the Kennewick Division of the Yakima Project). Net revenues for fiscal year 1965 were increased $1,997,000 by this change. The accounts were adjusted retroactively to the start of operations for the two large projects--Columbia Basin and Hungry Horse Projects--which increased accumulated net revenues $10,643,000 through June 30, 1964. If a similar retroactive adjustment had been made for the small projects--Yakima, Boise, Minidoka, and Palisades--there would have been an additional increase in accumulated net revenues, estimated at $750,000 through June 30, 1964.

Corps of Engineers

The Corps had not adopted compound interest depreciation in their official accounts at June 30, 1965. BPA changed the Corps' straight line depreciation to compound interest depreciation, using an interest factor of 2-1/2%, for financial statement purposes for fiscal years 1964 and 1965. Restatement of the depreciation by BPA is an interim measure pending consideration by the Corps of adoption of the compound interest method in the official accounts of the projects.

The fiscal year 1964 adjustment was made for that year only, and increased net revenues $7,711,000. The 1965 adjustment, made retroactive to the start of operations, increased net revenues an additional $44,432,000 through June 30, 1964, and $6,861,000 for fiscal year 1965.

The Walla Walla District of the Corps revised composite service lives of turbines and generators from 35 years to 65 years for the McNary and Ice Harbor Projects in fiscal year 1965, based on their reanalysis of service lives. This adjustment to the straight line depreciation expense recorded in the books of the Corps increased accumulated net revenues $7,638,000 through June 30, 1964, and $979,000 for fiscal year 1965. The Portland and Seattle Districts did not take similar action and continued to use composite service lives for turbines and generators for their projects, ranging from 35 to 41 years. In comparison with the practice of the Corps, the Bureau adopted a 72.5-year composite service life for turbines and generators for all of their projects in fiscal year 1963. The effect of these variations can be illustrated for The Dalles Project. The Dalles Project used a 40-year composite service life for turbines and generators, and this project's total compound interest depreciation expense for fiscal year 1965 was $1,901,000. If the 35-year composite service life for turbines and generators had been used, The Dalles depreciation expense would have been $281,000 higher. If the 72.5-year composite service life had been used, depreciation expense would have been $654,000 lower. The Department of Interior and the Corps are currently seeking to adopt more uniform service lives and depreciation methods.

All of the foregoing depreciation changes, and other relatively minor depreciation items, resulted in net prior years' adjustments which increased accumulated net revenues through June 30, 1965, by $131,693,000. (See Note 9a.) In addition to these prior year adjustments, depreciation changes have affected the net revenues for fiscal years 1963, 1964, and 1965 shown in Note 9.

Note 4. Interest

The interest rates applicable to the generating projects and the various increments of transmission investment are as follows:

Generating Projects in Service at June 30, 1965

Albeni Falls	2-1/2%	Hungry Horse	3%
Boise	3	Ice Harbor	2-1/2
Bonneville	2-1/2	Lookout Point-Dexter	2-1/2
Chief Joseph	2-1/2	McNary	2-1/2
Columbia Basin	3	Minidoka	3
Cougar	2-1/2	Palisades	3
Detroit-Big Cliff	2-1/2	The Dalles	2-1/2
Hills Creek	2-1/2	Yakima, Roza Division	3
		Yakima, Kennewick Div.	2-1/2

Bonneville Power Administration
Investment at June 30, 1965

Included in investment in fiscal year 1963 and prior	2-1/2%
,, ,, ,, ,, ,, ,, 1964	2-7/8%
,, ,, ,, ,, ,, ,, 1965	3%

Generating Projects Under Construction at June 30, 1965

Dworshak	2-5/8%	Little Goose	2-1/2%
Green Peter-Foster	2-1/2	Lower Granite	2-1/2
John Day	2-1/2	Lower Monumental	2-1/2

The interest rates for the Boise, Columbia Basin, Hungry Horse, Minidoka, and Palisades Projects, and the Roza Division of the Yakima Project were established by the Bureau pursuant to Section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485 h(c)). The rate for the Kennewick Division of the Yakima Project was established pursuant to Section 3 of the Act of June 12, 1948, (62 Stat. 382), which authorized construction of that division.

The interest rates applicable to the Corps projects and the BPA transmission system are not stipulated by law, but, rather, have been fixed pursuant to administrative policies in effect at the time the projects were constructed. In the case of the Bonneville Project, for instance, the Federal Power Commission, in connection with making the cost allocation for that project in 1945, determined that the average interest rate paid by the Treasury on new long-term bonds issued during the period the project was under construction averaged approximately 2-1/2 percent, and a 2-1/2 percent rate was adopted as the official interest rate for that project by the Corps with BPA's concurrence. BPA also adopted this rate for the initial investment in the transmission system.

Since the interest paid by the Treasury on outstanding long-term marketable bonds continued to average around 2-1/2 percent, this rate also was adopted for the Chief Joseph, Detroit-Big Cliff, Lookout Point-Dexter, Albeni Falls, McNary, and The Dalles Projects, construction of which was started shortly after World War II. Bureau of the Budget Circular A-47, issued in December 1952, provided that the financial analysis of projects submitted with requests for construction appropriations be based upon the average interest rate payable by the Treasury on long-term marketable bonds outstanding at the time of the presentation. The interest rate computed under the A-47 formula continued at 2-1/2 percent through fiscal year 1960. This rate was thus adopted for Columbia River Basin projects for which appropriations requests were submitted during that period. These include Cougar, Hills Creek, Ice Harbor, Green Peter-Foster, John Day, and Lower Monumental.

In accordance with A-47, the rate was increased to 2-5/8 percent in fiscal years 1961-62 and this rate was applied to the Dworshak Project. Circular A-47 was rescinded in May 1962 when the President approved new policies for planning water resource projects. These policies, which were published as Senate Document 97, 87th Congress, contain an interest rate formula similar to that in A-47. Although Senate Document No. 97 does not specifically apply to interest rates for repayment purposes, BPA adopted the Senate Document No. 97 interest rate formula for application to new transmission investment in fiscal year 1964. Starting in fiscal year 1964, the interest rate applied to each year's new transmission investment, therefore, is the rate certified by the Treasury Department pursuant to Senate Document 97 for the previous fiscal year. If the rate so computed is not a multiple of 1/8 of 1 percent, it is rounded to the next lowest 1/8. The Corps also has adopted this policy for new projects. However, on the Lower Snake River, where projects have been authorized as units of a navigation system, the same interest rate has been applied to all projects in the group regardless of when construction started. The 2-1/2 percent rate initially established for the Ice Harbor Project, therefore, also has been applied to the Little Goose, Lower Granite, and Lower Monumental Projects.

Financial data for the Corps and BPA include interest on a base which covers all elements of the net federal investment in the commercial power program including plant investment, working capital, and operation and maintenance costs. Through fiscal year 1962 the Bureau maintained memorandum accounts for financial statement reporting purposes which included interest at a rate of 2-1/2 percent on the same base as used by the Corps and BPA. Beginning in fiscal year 1963, the Bureau discontinued the memorandum accounts, and used their official accounts which included interest at a rate of 3 percent on the unrepaid investment in commercial powerplant required to be repaid with interest (except for one division of one project which uses the 2-1/2 percent rate). As previously discussed, the interest rates currently in use for Bureau projects are based on section 9(c) of the Reclamation Project Act of 1939 (43 U.S.C. 485 h(c)). However, the base for computing interest used in the official accounts has been defined by the Bureau according to their interpretation of law. Accordingly, the Bureau's financial data do not include interest (1) during the construction period for four projects and one division of a fifth project; (2) on plant costs that were allocated as benefits to downstream hydro plants for river regulation provided by the Columbia Basin Project; and (3) on other items such as investments in working capital. The foregoing changes at Bureau projects in base and rate, and other relatively minor interest changes at Bureau projects resulted in a net adjustment which increased accumulated net revenue through June 30, 1965, by $17,715,000 (See Note 9b).

The Corps and BPA both capitalize interest during the construction period, and have done so for all projects included in the system. The Bureau currently capitalizes interest during construction, but did not do so in all cases prior to 1956 because it was not specifically required by project authorizing legislation. Interest during construction has been included in the accounts of the Palisades Project and the Roza Division of the Yakima Project, but has not been included at the Boise, Columbia Basin, Hungry Horse, and Minidoka Projects, or the Kennewick Division of the Yakima Project. The amount of interest during construction as computed for the Columbia Basin and Hungry Horse Projects and the Kennewick Division was $14,217,000 based on the data in the memorandum accounts as of June 30, 1962. Interest during construction for the Boise and Minidoka Projects is estimated at $300,000.

Note 5. Cost Allocations

Costs of facilities which serve only one purpose are assigned to that purpose. For projects which serve more than one purpose, (e.g., power, irrigation, navigation, flood control), it is necessary to allocate the costs of joint-use facilities among the purposes served. The term "cost allocation" is used to describe this process and result. The discussion which follows pertains to the cost allocation of joint-use facilities.

Cost allocations are designated as firm or tentative. A tentative allocation is one which may be adjusted retroactively when it is made firm. A firm allocation may be changed in the future, if conditions warrant, but only prospectively. The following table presents the status of cost allocations for the generating projects at June 30, 1965:

Status of Cost Allocations

Project	Status
Albeni Falls	Firm
Boise	Firm
Bonneville Dam	Firm
Chief Joseph	Tentative
Columbia Basin	Firm
Cougar	Tentative
Detroit-Big Cliff	Tentative
Hills Creek	Tentative
Hungry Horse	Firm
Ice Harbor	Tentative a/
Lookout Point-Dexter	Tentative
McNary	Firm
Minidoka	Firm
Palisades	Tentative
The Dalles	Tentative
Yakima	Firm

a/ A firm allocation was approved by FPC Docket No. E-7235 dated September 1, 1965. The tentative allocation used through June 30, 1965, allocated 78.5 percent of joint plant costs and 81.0 percent of joint operation and maintenance expenses to power. The firm allocation assigns 78.6 percent of both joint plant costs and operation and maintenance costs to power. Joint plant costs assigned to power will be increased about $60,000. Joint operation and maintenance costs assigned to power through June 30, 1965, will be decreased about $30,000 when retroactive adjustment is made.

BPA has recommended to the Corps that the Corps develop allocations for its operating projects which the Department of the Interior and the Corps can agree upon and adopt as firm allocations as soon as possible. The cost allocations for all of the generating projects of the Bureau and the Corps shown in these financial statements are those used in their respective official accounts except for The Dalles Project, as explained below.

Recent Changes - Corps of Engineers Projects

Revised tentative allocations of joint costs based on the most recent allocation studies for The Dalles and McNary Projects were approved by the Chief of Engineers for use in the BPA financial statements starting in fiscal year 1963. These cost allocations were recorded in memorandum accounts rather than the official accounts for these projects pending adoption of cost allocation criteria by the President's Water Resources Council. The revised tentative cost allocations were used through fiscal year 1965 for The Dalles Project and through fiscal year 1964 for the McNary Project. The Federal Power Commission established a firm allocation for the McNary Project which was recorded in the official accounts in fiscal year 1965. The following table shows the effect of these changes on plant costs allocated to power for these two projects:

	The Dalles	McNary
Percent allocated to power:		
Old tentative allocation	92.72	97.5
Revised tentative allocation	74.5	80.0
Firm allocation	--	81.3
Amount of decrease in plant costs allocated to power:		
Old tentative to revised tentative	$19,300,000	$23,700,000
Revised tentative to firm	--	1,600,000 a/

a/ Increase.

The change from the old tentative allocation to the revised tentative allocation increased accumulated net revenues through June 30, 1962, $3,272,000 for The Dalles Project and $1,761,000 for the McNary Project. The increase for fiscal year 1963 was $741,000 for The Dalles and $1,092,000 for McNary. The change from the revised tentative allocation to the firm allocation for the McNary Project decreased accumulated net revenues through June 30, 1964, by $546,000, and for fiscal year 1965 by $97,000.

In addition to these changes, future changes may be made at the following hydro projects: Cougar, Detroit-Big Cliff, Hills Creek, Lookout Point-Dexter, and Green Peter-Foster. A total of $17,975,000 of the joint plant costs of these five projects has been allocated to irrigation, as shown on Schedule A. These allocations have been made pursuant to Section 8 of the Flood Control Act of 1944 (P.L. 534, 78th Congress) which authorizes projects constructed by the Corps to be utilized for irrigation purposes. According to an opinion from the Office of the Portland Regional Solicitor of the Department of the Interior, Section 8 limits the allocation of joint costs to irrigation to an amount which is within the ability of the irrigation water users to repay. However, related irrigation projects have not been authorized, and until they are, a determination of the water users' repayment ability cannot be made. Hence, the amount of joint plant costs allocated to irrigation may be revised. In addition, joint operation and maintenance costs allocated to irrigation to June 30, 1965, of $2,916,000 for the four hydro projects in service may also be revised.

Recent Changes - Bureau of Reclamation Projects

At the close of fiscal year 1962 the cost allocation was firm for the Columbia Basin Project and provided for charging 56 percent of joint plant costs to commercial power and 44 percent to irrigation, after allocation of minor amounts to navigation and other purposes. A revision to this firm cost allocation was approved by the Assistant Secretary of the Interior in fiscal year 1963. The revised firm cost allocation recognized flood control as a project purpose and changed the allocation percentages to 29.5 percent to flood control, 43.1 percent to commercial power, and 27.4 percent to irrigation. The new firm cost allocation transferred about $20,000,000 of joint plant costs from power and about $26,000,000 from irrigation to nonreimbursable flood control. The change was made prospectively, and the initial annual effect was to increase net revenues by an estimated amount of $1,000,000.

Other adjustments since June 30, 1962, were for: (1) a change in the effective date of implementing the revised firm cost allocation for the Columbia Basin Project, and (2) a correction of the retroactive adjustment for interest expense made in fiscal year 1960 when the firm cost allocation for the Hungry Horse Project was adopted. Accumulated net revenues were decreased a net of $209,000 because of these two adjustments.

The foregoing changes in allocations at both Corps and Bureau projects resulted in prior years' adjustments which in total increased accumulated net revenues through June 30, 1965, by $4,278,000. (See Note 9c.) In addition to these prior year adjustments, cost allocation changes have affected the net revenues for fiscal years 1963, 1964, and 1965 shown in Note 9.

Note 6. Costs Incurred by Other Agencies

BPA, the Bureau, and the Corps do not currently include in their accounts the estimated costs of space rental and audit services furnished by other federal agencies. BPA had included such costs in its accounts, and incorporated them in the financial statements through fiscal year 1962, but discontinued recording them starting in fiscal year 1963. Other power agencies of the Department of the Interior do not include these costs, and the decision to discontinue them for BPA was made to be consistent with the other agencies of the Department of the Interior, pending clarification of policy for accounting for these items.

The most recent official determination of the magnitude of these costs for BPA was made in fiscal year 1963. At that time the space rental and audit services furnished by other agencies without charge totaled $475,000 for the year, of which $260,000 would have been charged to operating expenses and $215,000 to plant investment. The figures for fiscal year 1965 would be approximately the same.

Note 7. Preliminary Survey and Investigations Costs

The Bureau, as a matter of policy, capitalizes all preauthorization general investigations costs which relate to a project in the form authorized by Congress. However, the Corps' policy is to exclude all preliminary surveys and investigations costs which are incurred prior to project authorization. The Corps implemented this policy in fiscal year 1964 and deleted $1,913,000 of such costs from project plant accounts. These costs were deleted upon instructions from the office of the Chief of Engineers to permit consistency with Senate Document 97, 87th Congress, which defines project installation costs, and the Corps interprets as limiting their inclusion to those which occur after project authorization.

Note 8. Adjustments to Accumulated Net Revenues

The following table summarizes the adjustments which have caused the net increase in Accumulated Net Revenues of $66,729,000 shown on Exhibits 1 and 2:

	Thousands of Dollars		
a. Restatement of depreciation from the straight line method to the compound interest method (see Note 3):			
(1) Bureau projects:			
Total effect through June 30, 1964	10,643		
Less compound interest adjustment made by BPA in fiscal year 1964	2,136	8,507	
(2) Corps projects:			
Total effect through June 30, 1964	52,143		
Less compound interest adjustment made by BPA in fiscal year 1964	7,711	44,432	
Net compound interest depreciation adjustment made in fiscal year 1965			52,939
b. Correction of error in accounting for loss on disposal of Coulee Dam Village and write-off of investment in preliminary survey work abandoned at Columbia Basin Project			3,742*
c. Adjustment to operation and maintenance expense due to change in effective date of new firm cost allocation at Columbia Basin Project a/			284*
d. Recognition for consolidation purposes of Southern Idaho projects net revenues accumulated through June 30, 1963 b/			9,560
e. Elimination of miscellaneous nonpower revenue and expense items through June 30, 1964:			
(1) Columbia Basin Project		361	
(2) Other Bureau projects		131*	230
f. Adjustment for Federal Power Commission determination of downstream benefits for the period 1957-1961 assigned to storage projects c/			616
g. Adjustment due to change in service lives of turbines and generators (See Note 3):			
(1) McNary Project		7,187	
(2) Ice Harbor Project		451	7,638
h. Adjustment for change from the revised tentative allocation to the firm allocation for the McNary Project (See Note 5)			546*
i. Adjustment to reinstate net power revenues through June 30, 1964, from generator units one through six at the Minidoka Project, that were relinquished by irrigation districts			336
j. Adjustment for miscellaneous minor items			18*
			66,729

*Deduction

a/ The Bureau recorded joint costs for depreciation, interest, and operations and maintenance expenses for fiscal year 1963 in accordance with the new firm cost allocation for the Columbia Basin Project (See Note 5). This adjustment of $283,799, principally to operation and maintenance expenses, restates these costs to reflect the change in the effective date of the new cost allocation from the beginning of fiscal year 1963 to the beginning of fiscal year 1964. The interest adjustment was made in fiscal year 1964 and the depreciation adjustment was made as part of the retroactive restatement of depreciation to the compound interest method.

b/ BPA was designated marketing agent for federal power generated and sold in Southern Idaho by order dated May 21, 1963. The transmission facilities, personnel and marketing agreements were transferred to BPA on September 1, 1963, with an effective date for accounting purposes of July 1, 1963. Data for fiscal year 1964 were included in the BPA financial statements for that year only. Financial data for these projects were included in consolidated financial statements, starting with fiscal year 1965, and the following accumulated net revenues recorded by the projects through June 30, 1963, were included in system financial statements in fiscal year 1965, as follows:

Boise	$4,203,989
Minidoka	704,512
Palisades	4,651,133
	$9,559,634

c/ Federal Power Commission's determination of downstream benefits payments to be made by nonfederal owners of downstream licensed projects for benefits received from upstream federal reclamation storage projects are made pursuant to section 10(f) of the Federal Power Act (16 U.S.C. 803f). The determinations had previously been made for the period January 1, 1949, through December 31, 1956, and from September 1, 1961, through August 31, 1964. In fiscal year 1965, under Docket E-6384, determination was made for the period January 1, 1957, through August 31, 1961, in the amount of $777,300. Of this amount, $130,500 was recorded as a prior year adjustment to accumulated net revenues for the Columbia Basin Project and $590,600 was recorded as a prior year adjustment for the Hungry Horse Project. The amount applicable to the Albeni Falls Project, $56,200, was recorded in current year revenues by the Corps.

An offsetting amount in accumulated net revenues is the transfer of $105,080 from BPA's accumulated net revenues to the Albeni Falls Project, representing the prior year's portion of the FPC determination for the period September 1, 1963, through August 31, 1964, recorded initially in March 1965. The Albeni Falls Project recorded the transfer in the current year revenues. The net effect of these adjustments was an increase in accumulated net revenues of $616,020 through June 30, 1964.

Payments by the nonfederal project owners are currently collected by BPA through the provisions of the Pacific Northwest Coordination Agreement. Transfers to the Federal Power Commission are made from these funds, and amounts are assigned to federal storage projects, based on the FPC determinations of benefits. These benefits result principally from the controlled storage and release of water, which increases the downstream projects' firm power-producing capability.

Note 9. Reconciliation of Accumulated Net Power Revenues from June 30, 1962, through June 30, 1965.

Combined statements showing results of electric power generating, transmitting, and marketing operations and the financial position of the integrated power system were last prepared for fiscal year 1962. Several major changes have been made in the manner of presenting statements showing results of operations and financial condition of the system since that time. Accumulated net revenues on a consolidated system cost accounting basis were $57,172,000 at June 30, 1962, and the increase to $202,791,000 through June 30, 1965, was caused primarily by these changes. The following table summarizes the changes and includes also the aggregate results of power operations recorded by BPA and the 16 individual generating projects for the three intervening years:

		Thousands of Dollars
Accumulated net revenues for the integrated power system through June 30, 1962		57,172
Net power revenues recorded in the accounts of BPA and the 16 individual power generating projects combined for:		
Fiscal year 1963	8,889*	
Fiscal year 1964	5,451*	
Fiscal year 1965	591* a/	14,931*
Adjustments to accumulated net power revenues made in fiscal years 1963, 1964, or 1965 (See items a through d below)		160,550
Accumulated net power revenues through June 30, 1965		202,791

*Deduction

a/ The difference between this figure and the $6,272,000 reported in Exhibit 1 is principally the adjustment to the compound interest depreciation method made for Corps projects by BPA (See Note 3).

Explanation of Adjustments:	Thousands of Dollars
a. Depreciation. To convert system-wide from the straight-line depreciation method to the compound-interest method; to adopt longer estimated service lives for eight projects; and to adjust for other depreciation changes as explained in Note 3.	131,693
b. Interest. To convert from interest at a rate of 2-1/2 percent on the net federal investment to interest at a rate of 3 percent on the	

unpaid plant investment at Bureau projects and to adjust for other interest changes as explained in Note 4.	17,715
c. Cost Allocations. To reallocate expenses recorded since the start of operations based on revised allocations of the cost of joint-use facilities for two Corps projects and to adjust for other allocation changes as explained in Note 5.	4,278
d. Other. To recognize $9,560,000 of net power revenues accumulated for the Southern Idaho projects before they were transferred into the system (See Note 8d); to reduce net revenues for $3,864,000 excess of expense over revenues on irrigation operations at Bureau projects accumulated in memorandum accounts through June 30, 1962; and to increase net revenues $1,168,000 for miscellaneous reclassifications, corrections, and other adjustments.	6,864
	160,550

APPENDIXES

PRINCIPAL OFFICIALS OF THE DEPARTMENTS OF THE ARMY AND OF THE INTERIOR RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF THE ARMY		
SECRETARY OF THE ARMY:		
Cyrus R. Vance	July 1962	Jan. 1964
Stephen Ailes	Jan. 1964	July 1965
Stanley P. Resor	July 1965	Present
CHIEF OF ENGINEERS:		
Lt. Gen. Walter K. Wilson, Jr.	May 1961	June 1965
Lt. Gen. William F. Cassidy	July 1965	Present
DEPARTMENT OF THE INTERIOR		
SECRETARY OF THE INTERIOR:		
Stewart L. Udall	Jan. 1961	Present
ASSISTANT SECRETARY, WATER AND POWER DEVELOPMENT:		
Kenneth Holum	Jan. 1961	Present
ADMINISTRATOR, BONNEVILLE POWER ADMINISTRATION:		
Charles F. Luce	Feb. 1961	Present
COMMISSIONER, BUREAU OF RECLAMATION:		
Floyd E. Dominy	May 1959	Present

UNITED STATES
DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

MAY 17, 1966

Mr. James T. Hall
Assistant Director
Civil Accounting and Auditing Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Hall:

We have reviewed the proposed report to the Congress on your examination of the financial statements of the Columbia River Federal Power System, for FY 1965, Departments of the Army and Interior.

Most of the information contained in the proposed report is the same as that in the Comptroller General's letter to Secretary Udall, dated December 30, 1965, and the audited financial statements it transmitted. This letter and the statements were incorporated in the Bonneville Power Administration's 1965 annual published report on the Columbia River Power System.

We find nothing in the proposed report to the Congress that requires comment.

Sincerely yours,

W. Darlington Denit

W. Darlington Denit
Director of Survey and Review

Enclosures

DEPARTMENT OF THE ARMY
WASHINGTON, D.C. 20310

30 JUNE 1966

Mr. H. H. Rubin
Associate Director
Defense Accounting and Auditing Division
United States General Accounting Office

Dear Mr. Rubin:

Reference is made to your letter of 27 April 1966, addressed to the Assistant Secretary of Defense and forwarding for review and comment copies of a proposed report to the Congress on an examination of the financial statements of the Columbia River Federal Power System for fiscal year 1965. The System consists of the integrated power generating and transmission facilities of the Corps of Engineers, Bureau of Reclamation and Bonneville Power Administration.

The report contains the opinion that the CRFPS financial statements, together with comments on inconsistencies and deficiencies in accounting procedures, are presented fairly, except for the lack of firm cost allocations for all projects in the system. I am pleased to note that the report indicates the substantial progress that has been made through cooperative efforts to resolve the problems which were the cause of unfavorable findings in the preceding FY 1963 report and that, with continued effort, the remaining problems would be resolved within a reasonable period of time. The cooperation of your office and that of the Department of the Interior in the interagency efforts directed toward resolution of these problems is very much appreciated.

In discussing the more important of the remaining problems standing in need of resolution the report states that the Bureau of Reclamation and the Corps of Engineers should establish mutually compatible uniform composite service lives of turbines and generators and the Corps should adopt the compound interest method of computing depreciation. It also discusses, without recommendations for specific actions; (1) inconsistencies in treatment of preauthorization study costs; (2) exclusion

Mr. H. H. Rubin

from project accounts of costs incurred and paid for by other Federal agencies for space rentals and audit services and; (3) the need for adopting firm cost allocations for all operational projects. These problems are discussed in the following paragraphs.

I am most pleased to inform you that the Corps of Engineers has already issued instructions for Corps-wide application to provide for consistent and uniform treatment of multiple-purpose project plant costs in connection with estimating, budgeting, accounting and reporting all elements of plant costs. In addition, the compound interest method of computing depreciation has been adopted by the Corps of Engineers. Your office is being informed of this action by General Woodbury's letter, dated 2 June 1966, to Mr. A. T. Samuelson. Implementing instructions are presently being staffed in the Office, Chief of Engineers and issuance for Corps-wide application is expected shortly. However, in both instances, due to the proximity of the fiscal year end and to anticipated difficulties in the development of data necessary for conversion, complete adjustment of official accounting records to reflect the new requirements will not be accomplished until fiscal year 1967. Your continuing cooperation during this conversion is desired and will be appreciated.

The inconsistency in accounting procedures discussed in the report relates to requirements of the Bureau of Reclamation and Corps of Engineers for recording preauthorization study costs in project accounts. The Corps excludes such costs from project accounts so as to be consistent with Senate Document 97, 87th Congress, which defines project costs. The Corps interprets this definition as limiting the inclusion of study costs to those which occur after project authorization. In this connection Congressional Appropriation Committees agreed in 1963 to presentation of budget data on a basis excluding preauthorization study costs from project cost estimates. Corps procedures, therefore, do not require the recording of preauthorization study costs in project accounts when financed by other than project funds.

With regard to treatment of costs incurred and paid by other Federal agencies for space rental and audit services, it is the view of the Corps of Engineers that exclusion of such costs from Corps project accounts is consistent with standards embodied in the GAO Policy and Procedures Manual for Guidance of Federal Agencies which provides in Title 2 that ..."Accounting procedures should be adopted ... to incorporate these costs into the accounting system whenever ... the amounts of the costs incurred and paid by other agencies are determined to be of significance in relation to the

Mr. H. H. Rubin

total costs of the agency, activity or operation on which financial reports are being prepared." A determination of the magnitude of such costs by the Office, Chief of Engineers indicates that they amount to less than one-half of 1 percent in total and therefore are not considered by the Corps to be significant enough to justify their inclusion in project accounts.

The Corps of Engineers concurs in the need and desirability of adopting firm cost allocations for all operating projects. The Corps of Engineers has initiated actions to resume efforts to establish firm cost allocations for all completed projects in the Columbia River Federal Power System. It is intended that these efforts will be coordinated with the Bonneville Power Administration, the Federal Power Commission and the Department of the Interior through an interagency work group. Your office will be advised further as these efforts progress.

The opportunity to review the draft report is appreciated. The copies of the report which were furnished for review are herewith returned. It is requested that six copies of the report as finally prepared be furnished the Chief of Engineers.

Sincerely yours,

Alfred B. Fitt

1 Incl
as

Alfred B. Fitt
Special Assistant (Civil Functions)