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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
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SEATTLE, WASHINGTON 98104

MAR 4 1971

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Brigadier General R. S. Kelley
Division Engineer
North Pacific Division
U.S. Army Corps of Engineers
210 Custom House
Portland, Oregon 97209

BEST DOCUMENT AVAILABLE

Dear General Kelley:

We have completed our review of the accounts and accounting procedures for the Corps of Engineers' multipurpose projects that were included in the Federal Columbia River Power System (FCRPS) for the fiscal year ended June 30, 1970. Our review, which included an evaluation of administrative procedures and controls, was directed toward determining the reasonableness and propriety of the projects' financial statements submitted by the Corps' North Pacific Division (NPD) to the Bonneville Power Administration for consolidation and inclusion in the FY 1970 FCRPS financial statements.

Our findings were discussed with appropriate District and Division Corps officials. We were pleased with the corrective action taken or promised. While we found that administrative procedures and controls in the Corps' basic accounting system were generally adequate, we would like to comment on the following matters.

Walla Walla District

The John Day Project workpapers contained numerous computational errors in the Construction Work in Progress Account which resulted in an approximate $230,000 overstatement of power assets. The workpapers which support the financial statement showed no evidence of supervisory review by the Corps. We brought this matter to the attention of Corps officials who made the necessary recomputations and assured us that adequate review procedures would be established.

Seattle District

1. Computational errors in supporting workpapers for the Libby Dam Project caused an understatement of power assets of about $182,000. Corps officials made the necessary corrections.

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2. The Seattle District was not completely following the Balance Sheet account allocation procedures which were agreed to by BPA, the Bureau, the Corps, and GAO on May 20, 1965.

   a. The Corps incorrectly allocated Libby Dam "Facility Costs" on a pro-rata basis with direct Construction Work in Progress costs. Since the "Facilities Costs" were specifically identified to features by the Corps engineering division they should have been charged to the identified features. The Corps officials prepared revised workpapers using the proper method.

   b. The Corps allocated the costs of Libby Dam Balance Sheet Accounts on a pro-rata basis with the Construction Work in Progress Account. The procedures agreed to on May 20, 1965, require that accounts should be analyzed and the identified costs charged to the appropriate features. Differences in the two methods were not significant enough to warrant revised statements for FY 1970 but the Corps officials assured us that the proper procedures would be followed in the future.

Portland District

During our review of the financial statements for the John Day Project, we noted that the Portland and Walla Walla Districts used different methods in allocating joint Construction Work in Progress (CWIP) costs to the various purposes, such as power and navigation.

The Portland District accounts for the portion of the John Day Project that has been completed and is in operation, Walla Walla accounts for the portion of the project which is still under construction. Portland prepares the financial statements for the John Day Project and obtains information on construction-work-in-progress from Walla Walla. During fiscal year 1970, Portland included for financial statement purposes construction-work-in-progress cost figures supplied by Walla Walla but recognized that the method used by Walla Walla in allocating construction-work-in-progress to purposes was different from the method provided in the Portland instructions.

The difference between the two districts occurs after a purpose has gone into service, and the total estimated cost for that purpose has been transferred to plant-in-service. Subsequently, Walla Walla will charge all future joint costs to the remaining purposes still under construction whereas Portland will continue to allocate joint costs to all joint cost purposes, on the basis of allocation percentages computed on total costs to date, whether or not some of the purposes have been completed and transferred to plant-in-service. (See attachment for a more detailed explanation and the significance of the two methods.)

We have discussed this matter with Corps officials at the Division level and at the Portland and Walla Walla Districts. Corps officials at the Division level told us they will review and evaluate this matter and prepare needed guidelines in order to provide for consistency in FCRPS reporting.

Interest Rates

During our review of interest computations at the Portland District we noted that the 2-1/2 percent interest rate used during initial construction, also had been used to compute interest costs on new construction for the Dalles and Bonneville Projects. The 2-1/2 percent rate had been used although justification data for new construction at the new projects provided for 3-1/8 and 3-1/4 percent interest rates.

Our computation of interest costs using the higher rates disclosed that additional interest costs for the two projects were not significant enough to warrant exception to our financial statements as of June 30, 1970. We believe, however, that the differences in interest costs will become more significant as new construction funds are being expended. Portland District officials told us that the North Pacific Division is pursuing these matters at the Chief of Engineer's level.

With respect to interest rates, the Secretary of the Interior issued Order No. 2929 on January 29, 1970. According to the Order and subsequent guidelines, a 4-7/8 percent interest rate would apply during fiscal year 1970 to any Corps or Bureau of Reclamation construction initiated after January 29, 1970. We understand that Corps and Department of the Interior officials have met to discuss the application of the Secretary's Order but that no agreements have been reached to date.

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A copy of this letter is being sent to the Engineer Comptroller, and to the District Engineer at the Portland, Seattle, and Walla Walla Districts.

We wish to acknowledge the courtesy and cooperation extended to our representatives during this review.

Sincerely yours,

William N. Conrardy
Regional Manager

Attachment:
Example of CWIP Costs

cc: Engineer Comptroller
Portland District Engineer
Seattle District Engineer
Walla Walla District Engineer

EXAMPLE - ALLOCATION OF JOINT CONSTRUCTION WORK-IN-PROGRESS (CWIP) COSTS

BACKGROUND

1. Both Portland and Walla Walla collect actual costs in their CWIP account.
2. Both Portland and Walla Walla transfer total estimated costs to Plant-In-Service as purposes, such as navigation, go into service.
3. After a purpose (navigation) goes into service:
   a. Walla Walla - Stops allocating joint CWIP costs to this purpose once it has gone into service. All joint costs henceforth will be charged to the remaining purpose (power) which is still under construction.
   b. Portland - Continues to allocate joint costs to this purpose (navigation) in the CWIP account.

Note: The method of allocating joint CWIP costs starts to differ between the two districts after one purpose has gone into service. (See next page for an illustration of these methods.)

ILLUSTRATION OF JOINT CWIP COST ALLOCATION METHODS

FACTS:

1. Total Estimated Joint Costs at completion = $300
2. Total Actual Joint Costs at interim balance sheet date = 200
3. Joint Cost Allocation Percentages:
   Joint to Power = 80 percent
   Joint to Navigation = 20 percent
4. Navigation is placed in service during fiscal year
5. At end of fiscal year project is not yet completed, but unallocated cost to date is allocated

Balance Sheet - Per Walla Walla Method:

	Total Joint	Jt. Power	Jt. Nav.
Plant Account	$60[a/]	-0-	$60
CWIP Account	140	$140[b/]	-0-
Total	$200	$140	$60

Balance Sheet - Per Portland Method:

	Total Joint	Jt. Power	Jt. Nav.
Plant Account	$60[a/]	-0-	$60
CWIP Account	140	$160[c/]	-20
Total	$200	$160	$40

a/ The estimated Navigation Jt. Costs are transferred to Plant:
20 percent x $300 Total Estimated Costs = $60

b/ All remaining Joint Costs of $140 go to Jt. Power

c/ $200 actual Costs x 80 percent to Joint Power = $160