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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 201 415 FIRST AVENUE NORTH
SEATTLE, WASHINGTON 98109

MAR 9 1977

Major General Wesley E Peel
Division Engineer, North
Pacific Division
U S Army Corps of Engineers
210 Customs House
Portland, Oregon 97209

Dear General Peel

We have completed our review of the Corps of Engineers (Corps) project financial statements for the fiscal year ended June, 30, 1976. The purpose of our review was to determine the reasonableness and propriety of the project financial statements submitted by the North Pacific Division (NPD) to the Bonneville Power Administration for inclusion in the fiscal year 1976 Federal Columbia River Power System consolidated financial statements. Our review included such test of accounting records, financial procedures, and controls as we considered necessary in the circumstances. Our 1976 detailed review work was performed primarily at the Portland and Seattle Districts.

Matters requiring changes on the financial statements were brought to the attention of responsible district officials and resolved during our audit. In addition, we identified several areas where procedures affecting the financial records could be improved.

TRANSACTIONS WHICH REQUIRED
CHANGES TO THE FINANCIAL
STATEMENTS

1. Interest was incorrectly stated on the financial statements of the Libby, Ice Harbor, Little Goose, and Lower Granite Projects.

Libby

--Interest on the Federal Investment was understated by \$3,961,434 on the Statement of Assets and Liabilities

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and understated by \$4,093,020 on the Statement of Revenues and Expenses. These understatements were caused by the following

<u>Reason</u>	<u>Statement of Assets and Liabilities</u>	<u>Statement of Revenues and Expenses</u>
Operating interest was understated due to an error in calculation	\$5,489,592	\$5,489,592
Interest on construction was overstated due to an error in calculation	(1,528,158)	(1,528,158)
Interest account not recorded correctly	_____	131,586
	<u>\$3,961,434</u>	<u>\$4,093,020</u>

Ice Harbor

--Interest on the Federal Investment was understated by \$3,353,404 on the Statement of Assets and Liabilities, and \$543,327 on the Statement of Revenues and Expenses. These understatements were caused by the following.

<u>Reason</u>	<u>Statement of Assets and Liabilities</u>	<u>Statement of Revenues and Expenses</u>
The Statement of Assets and Liabilities was understated due to incorrect computer data	\$3,364,260	
Operating interest was understated due to an error in calculation	148,349	\$148,349
Interest accounts not recorded correctly	(159,205)	394,978
	<u>\$3,353,404</u>	<u>\$543,327</u>

Little Goose

--Interest charged to construction was understated by \$533,557 on the Statement of Revenues and Expenses. This error had no effect on the Statement of Assets and Liabilities

Lower Granite

--Interest on the Federal Investment was understated by \$64,549 due to a calculation error.

We believe that the interest calculation should be more thoroughly reviewed and a "reasonableness" test applied so that large errors in interest will not go undetected.

2. The Bonneville Project's Accounts Payable were overstated by \$162,916. The overstatement was caused by two misstatements of accrued contractors' earnings: (a) an understatement of \$121,120 and (b) an overstatement of \$284,036.

3. Unfunded contractors' earnings for the Little Goose, Lower Monumental, Lower Granite, and Dworshak Projects were classified as deferred credits rather than as accounts payable. As a result, accounts payable were incorrectly stated by \$397,935, \$353,653, \$400,265, and \$400,230, respectively.

OTHER MATTERS

During our financial audit we noted several areas where accounting and management procedures could be improved.

1. The criteria used to classify claims as contingent liabilities or as accounts payable differed among the districts. Corps officials stated that at present, there is no division-wide regulation on this matter. The Portland and Seattle Districts classify claims as accounts payable after the claim has been settled, whereas, the Walla Walla District classifies portions of claims as accounts payable when there is a probability that a payment will have to be made on the claim. We believe that NPD should take action to standardize the procedures used by the districts to establish contingent liabilities resulting from claims.

2. Accruals for contractors' earnings in the Portland District could not be verified because the Finance and Accounting Branch had not obtained the necessary supporting documentation. We were advised by Portland District officials that procedures will be established to require the contracting officer at the construction site to provide a written

report of the contractors' estimated earnings. This documentation will enable the Finance and Accounting Branch to verify the amount of estimated contractors' earnings reported by the Construction Branch.

3. In the Seattle District, movable equipment which cost more than \$200 was generally not capitalized. Items not capitalized totaled about \$85,000 and included such items as a \$10,701 street sweeper and a \$5,068 high-performance recorder.

The Portland and Walla Walla Districts have interpreted Corps' regulations to require that such equipment be capitalized.


We suggest that NPD reevaluate the Corps' instructions and consider clarifying the existing instructions relating to capitalization of movable equipment. We also believe that the Seattle District should take action to capitalize the equipment referred to above.

4. NPD Internal Audit officials advised us that the Division's internal financial operations had not been reviewed during the year, because all internal auditor effort had been expended on contract reviews. The Budget and Accounting Act of 1950 requires the head of each agency to assure that appropriate internal audits are performed. To be effective, we believe that internal audits should extend to all financial activities of the agency. Therefore, we recommend that appropriate action be undertaken to assure that internal audit coverage includes a review of internal financial operations.

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

We wish to acknowledge the courtesy and cooperation extended to our representatives during this review. Your comments and advice as to actions taken or planned on these matters would be appreciated.

Sincerely yours,


John P. Carroll
Regional Manager