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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The Panama Canal Commission's Fiscal Year 1980 Financial Statements And Treaty-Related Issues

This report summarizes activities of the Panama Canal Commission's first year of operation, ending September 30, 1980.

In accordance with GAO's requirements under the Panama Canal Act of 1979, the report addresses the:

--Commission's progress in integrating the existing corporate structure accounting system of the predecessor organization with the system requirements for an appropriated fund agency.

--Status of payments to the Republic of Panama for public services provided.

--Status of property transfers and Treaty-related costs and savings.

Comments on the Commission's financial statements are also included as well as recommendations to the Administrator of the Commission and matters for consideration by the Congress.

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UNITED STATES GENERAL ACCOUNTING OFFICE

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

B-197901

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

This is our report on the examination of the Panama Canal Commission's financial statements for fiscal year 1980, the first year of operation under the Panama Canal Treaty of 1977, and on Treaty-related issues.

Our examination was made pursuant to the Accounting and Auditing Act of 1950 (31 U.S.C. 65 et. seq.) as specified in the Panama Canal Act of 1979 (22 U.S.C. 3601) and in accordance with generally accepted Government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported on the 1979 financial statements of the Panama Canal Company and Canal Zone Government, predecessor organization to the Commission.

Chapter 2 of the report discusses issues for congressional consideration on the investment of the United States in the Panama Canal Commission, the computation of interest on the investment, and our audit of public service payments to the Republic of Panama. Chapter 4 discusses the issue of Treaty-related costs and savings and our suggested alternative solutions for congressional consideration in amending the reporting requirements in the Panama Canal Act of 1979.

We are sending copies of this report to the Director, Office of Management and Budget; Secretaries of State, Defense, and the Army; and Administrator, Panama Canal Commission.

Milton J. Socolar

Acting Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

EXAMINATION OF THE PANAMA CANAL COMMISSION'S FISCAL YEAR 1980 FINANCIAL STATEMENTS AND TREATY-RELATED ISSUES

D I G E S T

This is GAO's report on the Panama Canal Commission, successor to the Panama Canal Company and Canal Zone Government, which completed its first year of operation on September 30, 1980.

The Panama Canal Act of 1979, the legislation implementing the Panama Canal Treaty, assigned GAO responsibility for

--auditing financial transactions of the Commission;

--auditing the annual $10 million payment by the Commission to Panama for public services rendered;

--certifying the estimated revenues in the Commission's annual budget at the time it is submitted to the Congress;

--approving the Commission's new accounting system; and

--presenting annual statements of property transfers and all direct and indirect costs incurred by the United States in implementing the Panama Canal Treaty of 1977.

COMMENTS ON FINANCIAL STATEMENTS

To further understanding of certain financial matters, the report discusses:

--Inconsistency in accounting principles, i.e., complications created by certain requirements of the Act. (See p. 5.)

--Property transfers to the Republic of Panama and to the Department of Defense and other U.S. Government agencies. (See p. 6.)

--The Commission's method of self-insurance for claims for damage to vessels transiting the Canal. (See p. 6.)

--Changes in the investment of the United States and how interest on the investment is determined. (See. p. 8.)

--The capital factor which represents advance contributions by Canal users to provide funds for the difference between the amount recovered in tolls for depreciation and the Commission's capital expenditure program. (See p. 10.)

--The Commission's payments to Panama for public services rendered. (See p. 10)

UNIQUE ASPECTS OF COMMISSION ACCOUNTING SYSTEM

The Panama Canal Commission was established as an appropriated fund agency which necessitates a certain approach to accounting policy and practice, particularly with respect to fund control. However, the Commission, which must continue to be self-supporting under the Panama Canal Act of 1979, saw a need to retain many of the accounting policies and practices of the Panama Canal Company. Combining these two accounting approaches will result in a unique and complex accounting system. (See p. 13.)

The Commission has made progress in integrating these diverse requirements including preparation of a formal statement of accounting policy and statements of accounting principles and standards. However, more needs to be done in regard to fund control. (See p. 13.)

GAO recommends that the Administrator, Panama Canal Commission, act to

--develop and implement a procedure to assure fund availability prior to obligation and

--appoint and instruct, in the manner prescribed by law and regulation, the minimum number of authorized certifying officers. (See p. 18.)

PROPERTY TRANSFERS AND TREATY-RELATED COSTS AND SAVINGS

As a consequence of the Treaty, Canal organization and Department of Defense properties and other assets with a net book value of about

$86.2 million and $33.5 million have been transferred, respectively, to the Republic of Panama. (See p. 19.)

Net Treaty costs to September 30, 1980, totaling about $82.0 million have been reported by the Department of Defense and other executive branch agencies. (See p. 19)

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the financial statements (schedules 1 through 6) present fairly the financial position of the Panama Canal Commission at September 30, 1980, and the results of its first year of operations, changes in the investment of the United States, and changes in financial position for the fiscal year then ended. (See p. 29.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO has been informed that the Commission plans to submit legislation seeking a change to a Government corporation rather than remaining an appropriated fund agency. GAO supports the corporate form of organization. GAO believes that this would eliminate much of the inconsistency in accounting principles without decreasing congressional control or oversight. (See pp. 5 and 11.)

The Act is not clear whether there should be a distinction between interest-bearing and non-interest-bearing investment. Consequently, the Commission has continued the practice of its predecessor of dividing the investment into interest and non-interest-bearing portions.

Since this establishes the base for interest computed, the Congress should make an explicit statement of intent. (See pp. 8 and 12.)

In accordance with provisions of the Act, interest on the U.S. investment recovered through tolls is deposited into the Panama Canal Commission Fund and, thus, remains available for reappropriation to the Commission. If it was the intent of the Congress that interest be paid into the Miscellaneous Receipts Account of Treasury, legislative change will be necessary. (See pp. 9 and 12.)

The Act requires that GAO audit the public service payment annually yet provides for adjustment to the amount of the payment every 3 years. Thus the annual audit requirement, coupled with the delay by the Republic of Panama in providing auditable data, may not be the best use of limited audit resources. The Congress should reconsider the requirement for an annual audit and, instead, provide for cost audits to coincide with opportunities to adjust the payment. (See p. 11.)

Because of continuing problems in identifying and reporting Treaty-related costs and savings, four alternatives the Congress should consider in seeking a solution are discussed. These range from eliminating the reporting requirement to development of an elaborate, centralized reporting system. (See p. 25.)

The Department of Defense has most of the Treaty-related costs and, of these, the majority apply to the Army. Consequently, GAO believes that limiting the cost/saving reporting requirement to the Department of the Army would simplify the process and still provide adequate oversight of costs incurred. The Congress, thus, should reconsider and amend the cost reporting requirements in the Panama Canal Act of 1979. (See p. 26.)

AGENCY COMMENTS

Officials of the Department of Defense and the Panama Canal Commission generally agreed with the matters presented in this report. The Department of State, however, declined to comment.

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FINANCIAL STATEMENTS

ABBREVIATIONS

PCC/CZG	Panama Canal Company/Canal Zone Government
DOD	Department of Defense
OSD	Office of the Secretary of Defense
GAO	General Accounting Office

CHAPTER 1

THE PANAMA CANAL COMMISSION

The Panama Canal Commission, successor to the Panama Canal Company and the Canal Zone Government (PCC/CZG), completed its first year of operation on September 30, 1980. This is our report on the Commission's first year of operation.

Prior to October 1, 1979, the PCC/CZG were charged with maintaining and operating the Panama Canal and with providing support services--schools, hospitals, public services, housing, etc.--to its employees. The PCC/CZG ceased to exist on October 1, 1979, when the Panama Canal Treaty entered into force. Their assets, liabilities, and functions were transferred to the Panama Canal Commission, the Government of Panama, the U.S. Department of Defense, and other U.S. agencies.

THE PANAMA CANAL TREATY

On September 7, 1977, the President of the United States and the Chief of Government, Republic of Panama, signed the Panama Canal Treaty, 1/ which provides for a new cooperative relationship between the United States and Panama. The objective of the Treaty is to assure that the Canal will continue to be efficiently operated, secure, neutral, and open to all nations on a nondiscriminatory basis.

The Treaty grants to the United States the right to manage, operate, and maintain the Canal until noon on December 31, 1999, and to use land and water areas and facilities necessary for this purpose. The U.S. rights will be carried out by the Panama Canal Commission which is supervised by a board consisting of five U.S. nationals and four Panamanian nationals. The Commission's Administrator will be a U.S. national until December 31, 1989, and a Panamanian national from 1990 through 1999.

The Treaty also establishes basic employment policies for the Commission, provides for certain payments to the Government of Panama from operating revenue, and provides for basic protection of the environment. It also commits the parties to study the feasibility of a sea-level canal and, if feasible and necessary, to negotiate terms for construction.

1/ These parties concurrently signed the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal. This Treaty provided that the United States and Panama will maintain indefinitely a regime for the permanent neutrality of the Canal including nondiscriminatory access and tolls for merchant and naval vessels of all nations.

THE PANAMA CANAL ACT

The Panama Canal Act of 1979 (Public Law 96-70; 93 Stat. 452; 22 U.S.C. 3601) enacted on September 27, 1979, provided the legislation necessary to implement the Treaty. The provisions of the Act, in large measure, define the organization and method of financing the Commission. It also assigns substantial responsibility to us.

COMMISSION ORGANIZATION

The Commission is a part of the executive branch and, as required by the Act, the Secretary of Defense is the executive branch officer responsible for oversight of the Canal matters.

The Chairman of the Supervisory Board is the Assistant Secretary of the Army (Civil Works). All nine Board members are appointed by the President, but the five U.S. nationals must be confirmed by the Senate. 1/ The U.S. members were not confirmed by the Senate until April 2, 1980. The board met for its initial session on June 2, 1980, in the Republic of Panama; this was the only session held during the Commission's first year of operation.

The first Administrator of the Commission is Mr. D.P. McAuliffe, who was appointed by the President and confirmed by the Senate on October 19, 1979. Mr. McAuliffe was Commander in Chief, U.S. Southern Command with the rank of Lt. General (USA) prior to his selection, and in this capacity he was a major participant in planning for the military's Treaty implementation.

Mr. Fernando Manfredo, Jr., the Commission's Deputy Administrator, is a Panamanian national. He was nominated by the Republic of Panama and was appointed by the President of the United States on November 1, 1979. Prior to his selection, Mr. Manfredo was a major participant in Treaty implementation planning for the Government of Panama.

COMMISSION FINANCES

By authority of the Act, the Commission is a noncorporate appropriated fund agency.

All tolls and other revenue of the Commission, as well as cash balances from the Panama Canal Company, are paid into an account with the United States Treasury known as the "Panama Canal Commission Fund." The unexpended balance of this fund plus the estimated receipts for the forthcoming year limit the amount

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1/ Panamanian members are nominated by the Republic of Panama then appointed by the U.S. President.

that can be appropriated for the Commission. This arrangement enforces the Act's mandate that the Commission be self-supporting.

For its first year of operation, the Congress appropriated $427.2 million from general revenues for the Commission to operate and maintain the Canal. Of this amount, the Commission expended or obligated $407.3 million. During the fiscal year ended September 30, 1980, the Commission had 7,673 employees and transited 13,614 oceangoing ships.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Panama Canal Act of 1979 requires that we:

--Audit the financial transactions of the Panama Canal Commission.

--Audit the annual $10 million payment by the Commission to Panama for public services rendered.

--Certify the estimated revenues in the Commission's budget at the time it is submitted to the Congress.

--Approve the Commission's new accounting system.

The Act also provides that the scope of our annual audits be expanded from that of prior audits of the Canal organization to include a statement listing all direct and indirect U.S. costs incurred in implementing the Treaty and the cost of property transferred to Panama during the fiscal year.

The scope of our financial audit is set out in chapter 5. For nonfinancial audit matters our work focused on the (1) efforts of the various Government agencies located in Panama to identify and account for Treaty-related costs and savings and (2) Commission's progress in developing a new budgeting process and accounting system to conform with the Panama Canal Act.

We discussed non-Commission Treaty-related matters in Panama with representatives of the U.S. agencies and organizations such as the U.S. Southern Command, U.S. Embassy, Federal Aviation Administration, Smithsonian Tropical Research Institute, and Gorgas Memorial Laboratory. In Washington, D.C., we discussed these matters with officials of the Departments of Defense and State, we also examined supporting documents provided to us by these agencies and organizations.

We met with Panama Canal Commission officials to determine action taken on implementing the new accounting system and we discussed with Commission and Embassy officials Panama's progress in implementing an accounting system to report costs incurred in providing public services to the Canal's operating and housing areas.

Supporting documents relative to these matters were reviewed as we deemed necessary.

A draft of this report was made available to the Panama Canal Commission and the Departments of Defense and State. We then met with officials of the Department of Defense and Panama Canal Commission to discuss their views. These officials generally agreed with our presentation, and their comments have been appropriately recognized. The Department of State, however, declined to comment.

CHAPTER 2

COMMENTS ON FINANCIAL STATEMENTS

The financial statements in schedules 1 through 6 are the first annual statements for the Commission and account for the change from the PCC/CZG to an appropriated fund agency in accordance with the Panama Canal Act of 1979. The Congress, in the Act, recognized the complexity of this transition and provided, for fiscal year 1980, that

> " * * * the Comptroller General shall take no adverse action with respect to the Commission * * * so long as the Commission is in substantial compliance with the requirements of the Act."

Even so, we believe the following financial transactions, some of which are addressed in the Commission's financial statements and notes, require further discussion to improve understanding.

--Inconsistency in accounting principles.

--Property transfers to Republic of Panama and to the Department of Defense and other U.S. Government agencies.

--Claims for damage to vessels transiting the Canal.

--Computation of interest on the investment of the United States.

--Determination and application of the capital factor, an element of transit tolls.

--Payments to the Republic of Panama for public services provided to the Commission.

INCONSISTENCY IN ACCOUNTING PRINCIPLES

Certain requirements of the Act complicate the Commission's approach to accounting. For example:

--Section 1311(a) requires the Commission to establish and maintain its accounts pursuant to the Accounting and Auditing Act of 1950 (31 U.S.C. 65 et. seq.); that is to adhere to the principles and standards of the Comptroller General.

--Section 1341(e)(1) requires the Commission to determine its operating expenses in accordance with generally accepted accounting principles; that is, in the same manner as a nongovernmental business enterprise.

--Section 1603(a) provides that the costs to be capitalized for construction projects will not include interest costs; this is counter to both generally accepted accounting principles and the principles and standards of the Comptroller General.

Although generally accepted accounting principles and the principles and standards of the Comptroller General are generally compatible, they do not always agree in detailed application. The Commission's decision to present separately its Statement of Changes in Financial Position (sch. 4) and its Statement of Status of Appropriations (see sch. 5) is a tacit recognition of these differences. Further, these differences have a pronounced effect on the design of the Commission's accounting system. (See ch. 3.)

TRANSFER OF PROPERTY

Both the Treaty and the Act contemplated substantial transfers of property from the PCC/CZG to the Republic of Panama and to U.S. departments and agencies. Most property was transferred when the Treaty entered into force on October 1, 1979. At that time properties with net book values of about $84.9 million and $34.9 million were transferred, respectively, to the Republic of Panama and Department of Defense and other agencies.

During fiscal year 1980, the Commission transferred some minor property items to the Republic of Panama and to U.S. departments and agencies, but the majority of the $2.1 million shown as transfers involves adjustments made to various Commission accounts to show the full effect of property transferred earlier.

Appendix IV lists the major assets transferred to the Republic of Panama by the Panama Canal Commission and its predecessor agencies since September 30, 1979.

CLAIMS FOR DAMAGE TO VESSELS

From time to time, vessels transiting the Canal are involved in accidents or are otherwise damaged. In some cases, the Commission or the PCC have had some liability. In order to normalize costs for inclusion in the toll base, the Commission has adopted the practice of the PCC of recognizing the financial costs of these accidents as a function of time rather than as each accident occurs. Therefore, marine accident costs are spread evenly over periods of time through charges to a reserve, as follows.

1. Each month, based on an annual estimate, the Commission charges a set amount as a current period expense thus establishing a nonspecific reserve for marine accidents.

2. When an accident occurs, the Commission estimates its liability, and records the amount as an accrued liability with a corresponding reduction in the reserve account.

Section 1415(b) of the Panama Canal Act of 1979 provides that accidents occurring in the Panama Canal or adjacent waters other than the locks and representing claims in excess of $120,000 cannot be settled by the Commission. Rather, the Commission submits a special report to the Congress containing facts and a recommendation. The Congress can then authorize settlement.

For this reason, the Commission established two separate accrued liability accounts, one for claims it is authorized to pay as soon as settlement is reached and one for claims requiring congressional approval. The Commission refers to these as fund and nonfund. (See note 9 to the financial statements.) The Commission requested a Comptroller General decision as to whether section 1415(b) applied to claims made against its predecessor, the PCC, before the effective date of the Act. The Comptroller General's decision stated that:

> "Panama Canal Commission, successor agency to Canal Zone Government and Panama Canal Company, may pay claims against the Company arising before October 1, 1979 for damage to vessels and for other tort liability which arises while the vessels are outside the locks but within the Canal waterways. Monetary limitations set forth in the Panama Canal Act of 1979, Public Law 96-70, 93 Stat. 452, do not apply to such claims because general savings statute, 1 U.S.C. 109, preserves both liability for and authority to pay such claims which previously existed under the Canal Zone Code." (B-197052) Feb. 4, 1981.

During fiscal year 1980, the Commission initially expensed and reserved $500,000 a month for marine accidents; however, late in the fiscal year, it became aware that this was not sufficient to cover the amounts being identified with specific accidents. To remedy this, the Commission expensed and reserved an additional $4.5 million during the year, or a total of $10.5 million for fiscal year 1980.

The balances of the fund and nonfund accrued liabilities at September 30, 1980, are shown on the following page.

	Fund (note a)	Nonfund (note b)	Total
Account balances at Oct. 1, 1979	$34,342,572	$ -	$34,342,572
Reclassified from reserve for marine accidents	2,112,389	7,596,205	(c)9,708,594
Net adjustments, settlements, and other payments	-6,182,563	-383,035	-6,565,598
Account balances at Sept. 30, 1980	$30,272,398	$7,213,170	$37,485,568

a/ Appears on balance sheet under current liabilities as "claims for damages to vessels."

b/ Appears on balance sheet under other liabilities and reserves as "unfunded liabilities for damages to vessels."

c/ Does not total $10.5 million charged to reserve because some other related expenses are also covered by the reserve.

INVESTMENT OF THE UNITED STATES

Section 1603 of the Panama Canal Act of 1979 requires the Commission to compute interest on the investment of the United States in the Panama Canal, but is unclear as to whether the investment is to be divided into interest-bearing and non-interest-bearing as was done by the PCC.

The Commission elected to follow the practice of the PCC and divided the investment into interest and non-interest-bearing portions. In the absence of payment instructions, the amount of interest computed is simply deposited into the Canal Commission Fund and remains available for reappropriation to the Commission.

Before the Treaty entered into force, the investment of the United States totaled $594.8 million, $319.3 million designated as interest-bearing and $275.5 million as non-interest-bearing. The non-interest-bearing portion included items such as reinvested earnings ($194.3 million), and investments in the CZG ($63.1 million) and the Thatcher Ferry Bridge ($18.1 million) which were non-interest-bearing by statute and by operation of accounting principles. The amount of interest computed and paid into Treasury's miscellaneous receipts account during fiscal year 1979 was $20.8 million.

Commission's treatment of investment

Section 1603 of the Act requires that

> " * * * interest shall be computed, at a rate determined by the Secretary of the Treasury, on the the investment of the United States in the Panama Canal as shown in the accounts of the Panama Canal Company at the close of business on the day preceding the effective date of this Act * * * ."

The investment is to be increased by the amount of expenditures from appropriations to the Commission and value of property transferred to the Commission. It is to be decreased by the amount of funds deposited into the Panama Canal Commission Fund in the Treasury and the value of property transferred to the Republic of Panama and the value of property transferred to any other U.S. departments or agencies.

When the Treaty entered into force, an investment totaling $180.3 million was transferred to the Republic of Panama and to U.S. Government agencies. Thus, the Commission began operations on October 1, 1979, with $414.5 million as the investment of the United States.

The Commission further interprets the procedure for determining investment to require that all transfers of investment are to reduce the interest-bearing portion of the investment. Thus, when the Thatcher Ferry Bridge was transferred to the Republic of Panama, the interest-bearing portion of the investment was reduced, even though pursuant to statute the PCC had classified the investment in the bridge as non-interest-bearing.

Following the above election and interpretation, initial investment at October 1, 1979, consisted of $187.6 million in interest-bearing and $226.9 non-interest-bearing accounts. At the end of its first year of operation, the investment had decreased to $384.8 million--$148.2 million in interest-bearing and $236.5 million in non-interest-bearing accounts. The interest computed for fiscal year 1980 was $11.9 million. Had interest been computed on the $384.8 million, it would have totaled about $27.3 million.

The amount of interest computed and collected as a part of transit tolls is deposited into the Panama Canal Commission Fund as required by section 1302(b) of the Act. However, the Act makes no provision for paying the interest determined to any other account in Treasury. We believe it should.

All deposits to the Commission Fund are available for appropriation to the Commission for operating and capital costs. Additionally, under the Act, all deposits reduce the investment of the United States. Thus the amount of interest imputed, collected, and deposited reduces the total investment. Some $11.9 million of the $39 million reduction in the investment during fiscal year 1980 is attributable to interest.

THE CAPITAL FACTOR

Section 1602(b) of the Panama Canal Act of 1979 provides that:

> "Tolls shall be prescribed at rates calculated to produce revenues to cover as nearly as practicable all costs of maintaining and operating the Panama Canal, together with the facilities and appurtenances related thereto, including unrecovered costs incurred on or after the effective date of this Act, interest, depreciation, payments to the Republic of Panama pursuant to paragraph 5 of Article III and paragraph 4(a) and (b) of Article XIII of the Panama Canal Treaty of 1977, and capital for plant replacement, expansion, and improvements. Tolls shall not be prescribed at rates calculated to produce revenues sufficient to cover payments to the Republic of Panama pursuant to paragraph 4(c) of Article XIII of the Panama Canal Treaty of 1977." (Underscoring supplied.)

The capital factor represents an advance capital contribution by Canal users and is necessary to provide funds for the difference between the amount recovered in tolls for depreciation and the Commission's capital expenditure program. In fiscal year 1980, the capital program totaled $25.2 million, with tolls accounting for $7.0 million and $18.2 million for the capital factor and budgeted depreciation, respectively.

The funds derived in this manner are to be used only for capital expenditure and, since they represent an advance of capital, the assets acquired cannot be depreciated. This approach is not consistent with either generally accepted accounting principles or the principles and standards of the Comptroller General.

Under the Act no payment will be made to the Republic of Panama under Article XIII 4(c)--the so called contingency payment--unless, among other tests, the sum of the capital factor and depreciation equal or exceeds the Commission's capital expenditure program. During fiscal year 1980, this condition was met and a contingency payment to the Republic of Panama provided for.

PUBLIC SERVICE PAYMENTS TO PANAMA

The Panama Canal Treaty provides that the Commission will pay Panama $10 million a year in reimbursement for police and fire protection; maintaining, lighting, and cleaning of streets; traffic management; and garbage collection services in the Canal operating and housing areas. These costs must be "reexamined" every 3 years after the Treaty enters into force to determine whether adjustment to the annual payment should be made. Understanding 1, incorporated in the Resolution of Ratification of the Treaty, stipulates that the Commission deduct from or add to the payment for each year of the second 3-year period one-third of the excess or deficit between the payments and the actual costs for the first 3 years. Any cost of services in dispute between Panama and the Commission pursuant to the reexamination shall be resolved by an independent and binding audit conducted by an auditor mutually selected by both parties.

As we reported in 1979, the Commission has emphasized to Panama that it requires a cost breakdown in sufficient detail to evaluate their reasonableness and to provide the basis for adjusting the payment. The Commission had also suggested cost accounting guidelines and recommended that individual costing agreements be developed for each service.

During fiscal year 1980, the Commission paid Panama $10 million for these public services. However, Panama submitted only one invoice and it contained no cost breakdown. Commission officials recently met with a Panama official to explain the Commission's serious concern that complications may arise if the cost of these services are not properly documented, but to date Panama has taken no further action.

As recently as March 9, 1981, the Commission again urged Panama to set up a cost accounting system for their public service effort. The Commission also offered to assist Panama in developing a means to identify, segregate and report public service costs.

Section 1341(a) of the Act provides that we shall audit the $10 million public service payments to Panama annually and that any overpayment shall be refunded by Panama or set off against amounts payable by the United States to Panama under the Treaty as determined in accordance with Understanding 1. To determine whether overpayments have been made, we must have sufficient and proper data available at the time of the audit. This year, as noted above, Panama submitted only one invoice for the services provided, but the Commission made regular payments on the basis of the annual provision of $10 million. Consequently, our audit was limited to examining payment records.

MATTERS FOR CONSIDERATION BY THE CONGRESS

We have been informed that the Commission plans to submit legislation seeking a change to a Government corporation rather than remaining an appropriated fund agency. If this proposal is favorably received, much of the inconsistency in accounting principles would be eliminated as the Corporation Control Act requires adherence to generally accepted accounting principles. In hearings preceding passage of the Panama Canal Act of 1979, we supported the corporate form of organization. We continue to prefer the corporate form because of its inherent flexiblity as a revenue-producing, self-supporting operation. We see no decrease in congressional control or oversight under the corporate form. Without some legislative change, the inconsistency in accounting principles will remain.

The Act is not clear whether there should be a distinction between interest-bearing and non-interest-bearing investment of the United States. The Congress should, therefore, make an explict statement of intent. If the Commission is incorrect, toll rates will need to be increased to assure recovery of the additional interest.

The Act leaves the interest recovered through tolls in the Panama Canal Commission Fund and thus available for reappropriation to the Commission. This is in accordance with the Act. If it was the intent of the Congress that interest be paid into the Miscellaneous Receipts Account of Treasury, legislative change will be necessary. Should there be no legislative change, the non-interest-bearing portion of the investment will continue to increase by the amount of interest over the years.

The Act requires that we audit the public service payments annually yet provides for adjustment to the amount of the payments every 3 years. Thus the annual audit requirement, coupled with the delay by the Republic of Panama in providing auditable data, may not be the best use of limited audit resources. The Congress should reconsider the requirement for an annual audit and, instead, provide for cost audits to coincide with opportunities to adjust the payments.

CHAPTER 3

UNIQUE ASPECTS OF COMMISSION

ACCOUNTING SYSTEM

The Panama Canal Commission was established as an appropriated fund agency. This organizational form necessitates a certain approach to accounting policy and practice, particularly with respect to fund control. However, the Commission, which must continue to be self-supporting under the Panama Canal Act of 1979, saw a need to retain many of the accounting policies and practices of the PCC. Combining these two accounting approaches will result in a unique and complex accounting system.

The Commission has made progress in integrating these diverse requirements; for example, it has prepared a formal statement of accounting policy and a draft statement of accounting principles and standards. More needs to be done, however, in regard to fund control.

The Commission's goal is to have one element of the new system possibly in operation for the fiscal year 1983 accounting cycle. However, a firm date for implementation will not be available until after the present phase of systems development.

ACCOUNTING SYSTEM REQUIREMENTS

The Commission perceives itself as a rate-regulated public utility, which results in many of its accounting policies, including the observance of generally accepted accounting principles as modified for rate-regulated businesses. The sources of this perception can be traced to the congressional debate in 1950 leading to the creation of the PCC, when the House Committee on Merchant Marine and Fisheries observed that:

> "The appropriate toll policy can hardly be decided upon and administered without business-type accounts, similar to those of public utilities, upon which to rely for the basic financial and operating data."

In a 1976 report, the Committee noted that

> "The accounting technique of a public utility-type organization such as the Canal enterprise is central to the rates charged by that organization."

The Commission believes this perception was properly carried forward by the mandate in section 1602(b) of the Panama Canal Act. (See p. 10.) For these reasons, many of the Commission's accounting policies are substantially unchanged from those followed by the PCC. These policies prescribe business-type accounts, in accordance with generally accepted accounting principles similar to those of a public utility.

As an appropriated fund agency, the Commission is required not only to maintain the business-type accounting system required of Government corporations but also to adhere to the policies and procedures for Government accounting prescribed in the Accounting and Auditing Act of 1950. Thus, the Commission has to develop an accounting system which conforms to the principles, standards, and related requirements prescribed by the Comptroller General for executive agencies as well as to the Act; i.e., an integrated approach.

PROGRESS TOWARD DEVELOPING AN INTEGRATED SYSTEM

The Commission is incorporating the requirements for an appropriated fund agency into the current system carried over from the PCC. This integrated system will require our approval, which as prescribed by our Policy and Procedures Manual for Guidance of Federal Agencies, consists of a (1) statement of principles and standards established to govern the agency accounting system and (2) design of the accounting system.

The Commission has provided us with the first two drafts of its statement of principles and standards prior to formal submission. We have given the Commission informal feedback on these submissions and will continue to monitor its progress in developing the system. As of February 1, 1981, the Commission had no specific timeframe for formally submitting this statement for approval. Even so, the Commission is working toward a June 30, 1981, date for formal submission.

Accounting system changes to respond to issues identified in 1979

In 1979, the Commission had identified the following key accounting issues which required followup or resolution before a new accounting system could be implemented.

--Procedure for monitoring fund availability prior to obligating funds.

--Report of expenditures by fiscal year of funding.

--Development of undelivered order system and integration into the overall accounting system.

--Decide on a method of funding capital work.

--Procedure for reporting leave paid in the accounts which supports reporting by an accountable organization.

--Changes to the automated financial planning system.

With these issues clarified, the Commission believes that it is following required procedures for an appropriated fund agency and that there are no major internal control weaknesses because of changes not yet implemented. Rather, officials believe additional changes will refine and improve existing procedures and provide more extensive automation.

Several of the issues identified in our 1979 report have been resolved; the Commission:

--Has implemented reporting of expenditures by fiscal year of funding to account for liquidations of current and prior year obligations.

--Has developed an automated system for undelivered orders; however, the system is not yet integrated into the accounting system, and the Commission expects to modify this system over the next several years.

--Is reporting leave paid as required for appropriated fund accounting; however, the information is retrieved from the payroll system by a separate computer program and not generated automatically by the payroll system.

--Has made changes to the automated financial planning system, basically to provide for detailed budgetary reporting.

--Must still decide how to fund capital work; currently, work done by Commission forces is initially paid (funded) by operating expenses funds and they are reimbursed from the capital fund. However, other approaches are being considered.

Some fund control concepts arising from the requirements for appropriation-type accounting need to be more rapidly implemented to preclude violation of law. Specifically, the Commission needs to (1) develop and implement procedures to assure fund availability prior to obligation and (2) appoint and instruct, in the manner prescribed by law and regulation, authorized certifying officers.

NEED FOR MORE RAPID IMPLEMENTATION OF FUND CONTROL CONCEPTS

As an appropriated fund agency, the Commission must ensure that it complies with the Budgeting and Accounting Procedures Act of 1950 and the Anti-Deficiency Act.

Title II, Section 10 of our Policy and Procedures Manual for Guidance of Federal Agencies provides that:

--The principal purposes of the Anti-Deficiency Act are to prevent the incurring of obligations or the making of expenditures (disbursements) which would create deficiencies in appropriations and funds, to fix responsibility within an agency for excess obligations and expenditures, and to assist in bringing about the most effective and economical use of appropriations and funds.

--The system of administrative control must fix responsibility for the creation of any obligation, the incurrence of any expenditure, or the making of any disbursement in excess of an apportionment, reapportionment, or other subdivision.

Accounting for funds availability

The Commission has not implemented uniform procedures to ensure that adequate funds are available at the time obligations are incurred. The principal tool for fund control is a monthly report (Status of Funds Statement by Responsibility) which shows obligations incurred and funds available for the month and year-to-date. Information presented is after the fact and thus fails to meet the requirement of identifying obligations as they are incurred.

It was intended that this report would be used in conjunction with other records to ensure that current year obligations do not exceed funds available. However, requirements for adequate supplemental data have not been implemented.

Title II, of our Policy and Procedures Manual provides that:

"It is necessary that the accounting system of each agency accumulate data on the financial obligations of the United States for which the agency is responsible. These procedures should provide for identifying obligations with the applicable appropriation or fund at the time they are incurred." (Underscoring supplied.)

In October 1979, the Commission issued instructions to operating units emphasizing the need for fund control. It was suggested that worksheets be maintained to manually record all obligations of allotted funds in order to assist in the determination of fund availability. Also, the Commission designated 33 unit fund controllers within the operating units to establish management control over the use of funds and instructed them to certify the availability of funds before initiating procurement action and to maintain adequate records to support availability of funds.

However, procedures for the unit fund controller to manually record all obligations were never formalized nor made mandatory.

For example, during a March-April 1980 survey, the Commission's internal auditors found that only 2 of 23 unit fund controllers they reviewed were recording the amount of obligations in order to keep track of the amount of obligated funds. Since this survey, the Commission advises that fund controllers are being supplied with data on obligations. Further, until the new system is fully implemented, fund control has been centralized at the bureau level.

Certifying officers not properly designated

One control over disbursements is the proper designation of certifying officers. Although the Commission has employees who certify vouchers, they have not been designated nor given the accountability as prescribed in our Policy and Procedures Manual for Guidance of Federal Agencies, Treasury's Fiscal Requirements Manual, and 31 U.S.C. 82. Even though work is underway in this area, full compliance has not been reached.

Treasury's Manual, part 4, section 2040.30d provides that a certifying officer shall be designated in writing and that the designation shall be accompanied by the SF 210, signature card. On this card, the agency head or designee certifies the official signature of the designated certifying officer and the card may also serve as the designation itself. A copy of the card is sent to the disbursing officer who pays the vouchers, and this officer should accept for payment only those vouchers which contain the certifying officer's signature.

When certifying officers are designated, the agency should advise them of their legal responsibility in accordance with 31 U.S.C. 82, and our Policy and Procedures manual which indicates that certifying officers are:

1. Responsible for the existence and correctness of the facts recited in the certificate or otherwise stated on the voucher or its supporting papers, for the legality of the proposed payment under the appropriation or fund involved, and for the correctness of the computations therein.

2. Accountable for and required to make good to the United States the amount of any illegal, improper, or incorrect payment resulting from any false, inaccurate, or misleading certificate made by him, as well as for any payment prohibited by law or which did not represent a legal obligation under the appropriation or fund involved.

3. Required to use the title "Authorized Certifying Officer" when certifying payment vouchers.

The officer's name will be typed or printed below his signature on the voucher along with the date of certification.

The Commission has delegated authority for approving payments to division and unit chiefs and other selected employees, who sign payment vouchers as the "Authorized Certifying Office." The Commission is revising its procedures for delegating authority for procurement and payment approvals in order to help strengthen the controls over these areas. However, these efforts fall short of compliance with the requirements for certifying officers; for example

--no certified copy of the delegation of authority to designate certifying officers has been transmitted to the U.S. Treasury's Chief Disbursing Officer;

--the SF 210 signature card for certifying officer is not being used; and

--responsible personnel have not been properly informed of their responsibilities and accountability as prescribed in 31 U.S.C. 82 and Title II of our Policy and Procedures Manual.

RECOMMENDATIONS

We believe the Commission has made substantial progress in developing an integrated accounting system. We agree that proposed changes will refine and improve existing procedures, but because the Commission is now required to adhere to the Anti-Deficiency Act, it needs to more rapidly implement fund control concepts. Therefore, we recommend that the Administrator, Panama Canal Commission, act to

--develop and implement a procedure to assure fund availability prior to obligation and

--appoint and instruct, in the manner prescribed by law and regulation, the minimum number of authorized certifying officers.

CHAPTER 4

PROPERTY TRANSFERS AND TREATY COSTS AND SAVINGS:

PROBLEMS ENCOUNTERED AND ALTERNATIVE SOLUTIONS

The Panama Canal Act of 1979 expresses the sense of the Congress that direct appropriated costs for Treaty implementation over the life of the Panama Canal Treaty should not exceed $665.7 million plus an appropriate inflation adjustment. This was the estimated amount of taxpayer Treaty implementation costs that the executive branch presented to the Congress during consideration of the Act in March 1979. Total estimated costs were $776.7 million, less $111 million in estimated cost savings. The Act also requires that we provide the Congress with information on property transferred to the Republic of Panama and a statement listing all direct and indirect costs incurred in implementing the Treaty. The data required is included in this report as appendices I through IV.

PROPERTY TRANSFERS TO REPUBLIC OF PANAMA

Since implementation of the Treaty, property valued at about $119.7 million has been transferred to the Republic of Panama, $86.2 million by the Commission and its predecessor organization, and $33.5 million by the Department of Defense.

The vast majority of this property was transferred at Treaty implementation on October 1, 1979. (See apps. III and IV for detailed property lists.)

TREATY COSTS AND SAVINGS

Net Treaty costs for fiscal year 1980 were as follows:

Department of Defense:

Dependent Schools	$ 2,357,000
Defense Mapping Agency	1,209,264
Army	58,917,031
Air Force	3,028,935
Navy	309,740
Net costs fiscal year 1980	$65,821,475
Other executive branch agencies fiscal year 1980	(1,970,475)
Net Treaty costs, fiscal year 1980	$63,851,495
Treaty cost in prior years	18,178,731
Treaty costs to September 30, 1980	$82,030,226

These costs and savings are further detailed in appendices I and II.

PROBLEMS ADDRESSED IN PREVIOUS REPORT

In our January 12, 1981, report 1/, we identified the following problems in the agencies' plans and actions to account for Treaty costs.

--Lack of a Government-wide definition of Treaty costs.

--Lack of a central control point for tracking overall Treaty costs.

--Costs and savings not included in the March 1979 estimates.

--No rate for inflation adjustment was prescribed.

We concluded that:

--The Department of Defense, which will be incurring the largest amount of Treaty-related costs, has made progress in preparing to account for these costs over the life of the Treaty; other agencies have not made as much progress.

--Defense has taken specific action to define Treaty-related costs and establish a method to identify a central point for information. However, the Air Force in Panama anticipates that it may incur some problems in accounting for Treaty costs that cannot be readily identified.

--Other agencies have not received guidance from the department level. Specifically, there is (1) no common definition of Treaty costs, (2) no centralized collection/guidance point to gather cost information or provide direction on areas not obviously Treaty related, and (3) little future planning or projecting of Treaty cost estimates for fund control purposes.

--Treaty costs and savings are being incurred that were not included in the March 1979 estimates used as the basis for the Treaty cost ceiling. Since such items have not been provided for in the estimates, it is important that they be closely monitored for control purposes.

1/ "Examination of Fiscal Year 1979 Financial Statements of the Panama Canal Organization and Treaty Related Issues" (ID-81-14).

--Guidance for inflation adjustments to Treaty costs has not been published by any of the agencies. It is important that such guidance be issued for proper comparison of actual costs incurred with the March 1979 cost estimates.

We recommended that, since the Department of Defense will incur the largest amount of Treaty costs and has acted to account for these costs, the Secretary of Defense establish and chair a steering committee at the department level, consisting of representatives from agencies incurring Treaty-related costs and savings, to coordinate agencies' efforts to define, identify, and account for Treaty costs. This committee could develop a standard definition of Treaty costs and savings and a rate for inflation adjustment and be a focal point for consolidating and reporting Treaty costs.

Defense agreed that an interagency effort is needed to recommend definition of Treaty costs and cost savings and to provide guidance for inflation adjustment to these costs. It did not believe, however, that a steering committee should be established to coordinate agencies' efforts in consolidating and reporting Treaty costs. Rather, Defense stated that the Office of Management and Budget could better coordinate such agencies' efforts.

PROBLEMS CONTINUE IN DETERMINING NET TREATY COST

We found that problems similar to those reported last year still exist; for example:

--Many agency officials are uncertain whether all pertinent costs are being properly identified.

--Within Defense, costs identified are reported to various designated focal points rather than to one control point.

--Non-Defense organizations have not established procedures for accumulating and reporting Treaty costs.

--Some agencies are incurring costs or savings that were not included in the original estimate.

--No rate for inflation adjustment has been established.

Inconsistencies in cost recognition

The Department of the Army, which has the majority of Defense costs, has developed a Letter of Instruction to identify Treaty-related costs and establish procedures for accumulating and reporting them. The letter, dated September 27, 1979, has been distributed to all Army components concerned. It was also made available, through the Office of the Secretary of Defense (OSD), to Air Force and Navy components, although these components have also issued their own guidelines.

Some officials were not aware of the guidelines and some believed they lacked adequate detail, thus requiring highly subjective determinations on their part. For example, a Navy official in Panama, who had received both the Navy and Army instructions, questioned whether the Navy component was reporting proper Treaty costs; some major costs being reported were associated with committee meetings held with the U.S. Southern Command. The official said that these meetings were routine and not necessarily Treaty-related as such coordination would occur with or without the Treaty.

Other officials reported no problems in identifying Treaty costs based on the rationale that one need only identify those functions in place prior to the Treaty and then classify any subsequent increments as Treaty-related. Nevertheless, inconsistencies occurred, particularly concerning recognition of costs of salaries, equipment, and supplies, for example:

--The MEDDAC Commander did not charge any of his salary to Treaty-related costs even though he acquired extensive additional responsibilities. Conversely, the Commissary Officer charged a portion of his salary to the Treaty due to additional commissaries placed under his responsibility.

--The Air Force assumed responsibility for accounting and budgeting for Defense Dependent Schools located in Panama. However, costs for time spent in this regard are not charged as Treaty-related.

None of the non-Defense agencies had a formal standard definition of Treaty-related costs and savings. Several stated that determining what constituted a Treaty cost was difficult, particularly when indirect costs are involved. For example, State Department officials said that separating Treaty costs from routine activities is difficult; they do not believe that an individual's involvement in Treaty matters necessarily justifies charging a portion of his/her salary to Treaty costs. Even so, State provided an estimate of its costs and savings. (See App. II.)

It is evident from such problems that a central focal point is needed to provide uniform guidance on matters of this nature.

Costs not reported to central location

Defense components have established procedures for accumulating and reporting Treaty-related costs; however, the costs are reported to various regional and district offices rather than to a central location. Non-Defense agencies have not established procedures for accumulating and reporting costs.

The Army's Finance and Accounting Center in Indianapolis has been established as a control point for the Army's Treaty-related costs. However, only the costs of the Army's 193d Brigade in Panama are forwarded directly to the center; other Army components located in Panama, such as the Tropic Test Center and the commissaries, report costs to their respective stateside district offices via the 193d's Accounting and Finance Office. The district offices, in turn, report their component costs to the Indianapolis center.

Air Force costs are accumulated in Panama by the Air Force accounting staff at Howard Air Force Base and are submitted to the Air Force Accounting and Finance Center in Denver.

Navy costs are accumulated at the Rodman Naval Station in Panama and submitted to the Commander in Chief, Atlantic Fleet, in Norfolk.

A memo, dated December 1979, from OSD stated that:

> " * * * no recurring report is required (w/regard to Treaty costs). Rather OSD expects to be able to respond to inquiries as needed within 48 hours. Accordingly each component must designate a central office that will maintain current data and be able to respond promptly to inquiries * * * ."

OSD, however, apparently had difficulty acquiring the respective data. During a December 17, 1980, meeting with OSD officials, we requested fiscal year 1979 and 1980 Treaty cost and savings data and certain other information, such as definition of Treaty costs. Most of the information had previously been requested by letter. Data for fiscal year 1980 was furnished to us through discussions with OSD officials in commenting on our draft report.

Non-Defense agencies have no specific accounting or reporting systems. Treaty-related costs or savings are identified through analyses of fiscal year expenses. Costs or savings identified are not reported to headquarters or any central points. Most of these agencies had not identified Treaty-related costs for fiscal year 1980 prior to our request for such costs.

We believe that a focal point would facilitate coordination and collection of Treaty cost data and timely response to any inquiries. In commenting on our draft report, however, DOD believes that a focal point has been established for these costs that meets the Department's needs.

SOME AGENCIES INCURRING COSTS OR SAVINGS NOT INCLUDED IN ORIGINAL ESTIMATE TO CONGRESS

As a result of the Treaty, some non-Defense agencies located in Panama will be incurring additional costs or experiencing savings which were not included in the original estimate presented to the Congress in March 1979. That estimate, totaling $665.7 million, was established as the ceiling for Treaty costs (both Defense and non-Defense). Any additional costs will be charged against that ceiling.

The only non-Defense agencies included in the March 1979 estimate were the State Department, the Federal Aviation Administration, and Panama Canal Organization. In our fiscal year 1979 report, we identified several other agencies which were expected to incur costs, and more have been identifed in our current review. For example, the:

--American Battle Monuments Commission incurred $154,000 in fiscal year 1980 for operating the Corozal Cemetery. This operation was previously carried out by the Panama Canal Company. The Commission estimates a total cost of $2.87 million over the life of the Treaty. (Total does not include factoring in inflation.)

--Canal Area Court System, which includes the U.S. Court, U.S. Marshall, and U.S. Attorney's Office, will realize savings because they are phasing down and will be eliminated at the end of the transition period in fiscal year 1982. The U.S. District Court was the only activity which had a savings in fiscal year 1980--approximately $41,000. However, total savings for all three through 1982 are estimated at $10 million.

Some of the other agencies' earlier estimates have changed. For example, the Federal Aviation Administration's current estimate of total cost savings from fiscal year 1979 to 1985 (when it will phase out its Panama operation) is $20.9 million; this was not identified at all in the March 1979 estimate.

Within Defense, savings may result from lower personnel costs (salaries and benefits). To date there has been no identification or discussion of Treaty savings due to the implementation of the new Panama Area Wage Base, which is lower than that of pre-Treaty wages. For Defense the impact is substantial.

Defense roughly estimates annual savings of $1.2 million and savings of $23.5 million over the life of the Treaty. The estimates were based on analysis of fiscal year 1980 operations, which identified actual savings of $1.2 million; they were projected straightline over the life of the Treaty and do not include an inflation factor. However, these savings will be realized only if the Panama Canal Wage Base remains in effect.

The non-Defense agencies, which identified costs for the first time in fiscal year 1980, used the same procedure based on fiscal year 1980 costs.

SUGGESTED ALTERNATIVE SOLUTIONS

If no changes are made to existing legislation, we reassert our 1979 recommendation that a central focal point be established to provide overall guidance and to accumulate all Treaty costs reported.

In view of the problems that continue to exist, we are outlining alternatives for congressional consideration. These range from eliminating the cost/savings reporting requirement altogether to developing a highly complex centralized data collection and management system.

Alternatives

Eliminate cost/savings report

The Department of Defense is expected to incur 98 percent of the total anticipated Treaty-related costs. The remainder is spread among eight other agencies located in Panama. One of these, the National Oceanic and Atmospheric Administration, incurred only $1,000 in Treaty costs during fiscal year 1980.

Many officials in these agencies could see no real value in accumulating and reporting Treaty costs. Because the amounts involved are so small, these agencies cannot justify separate systems to identify and accumulate costs. Therefore, to make a report, officials must manually review and analyze each expenditure to determine if it is Treaty-related; in such a process, the criteria for determining Treaty-related cost becomes highly subjective.

The requirement for annual reporting could be eliminated from the Panama Canal Act without diminishing the expressed sense of the Congress to keep cost to an absolute minimum. The Congress could still raise questions about total cost while exercising its oversight function through the budget process and as a minimum eliminate the estimated annual recurring costs for DOD components of $118,994 for maintaining the data.

Reporting by Department of Army only

Within the Department of Defense, the Department of Army is expected to incur the largest share of Treaty costs. The Army's share is large enough to justify a separate procedure for identifying, recording, accumulating, and reporting its Treaty-related costs. To its credit, the Army has taken the lead within Defense to develop procedures responsive to the requirements of the Act.

Tracking only Army's costs would not provide absolute assurance that the ceiling had not been reached but its costs would provide a highly reliable indication of overall cost. Should the Army costs begin to increase unexpectedly, the Congress could then call all involved agencies together for a full accounting.

Reporting by Department of Defense only

This alternative closely parallels that for the Department of the Army; the benefit would be that a larger portion of total expected cost would be reported as an indicator of overall costs. If this approach were accepted, there would still be a need to reassert our 1979 recommendation concerning the need for close interagency coordination and cooperation.

Full and total cost reporting

Under this alternative, all Treaty-related costs would be reported, which would provide the Congress with a full and complete report of all Treaty-related costs and savings. However, for such a report to be reliable, a complex and centralized system would be needed to establish criteria and to ensure identification and reporting. The cost of such a system could well outweigh the benefits, especially when this alternative is compared to reporting by the Army or Defense only. In commenting on our draft report, DOD presently believes that the cost reporting requirement should be eliminated.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Since (1) the Department of Defense has most of the Treaty-related costs, (2) the Army has the majority of Defense's costs, and (3) non-Defense agencies have relatively few Treaty costs, we believe that limiting the cost/saving reporting requirement to the Department of Army only would

--simplify establishment of a central point to provide guidance and accumulate costs;

--use the most advanced system currently in place for accumulating and reporting costs;

--provide a reliable measurement of the extent to which costs are approaching the $665.7 million ceiling; and

--result in further savings by eliminating the requirement for components having a small proportion of total costs.

Accordingly, the Congress should reconsider and amend the cost reporting requirements in the Panama Canal Act of 1979 to limit them to the Department of the Army.

CHAPTER 5

SCOPE OF EXAMINATION AND OPINION

ON FINANCIAL STATEMENTS

The Panama Canal Commission's financial statements were officially provided to us on March 11, 1981. However, we had access to working drafts of the statements on November 19, 1980, and were kept advised of changes made by the Commission in moving from the working draft to final statement presentation.

We examined the Commission's balance sheet as of September 30, 1980, and the related statements of operations, changes in the investment of the United States, statement of changes in financial position and statement of status of appropriations for the fiscal year then ended. (See schedules 1 through 5.) Certain financial statements of the Commission which were presented on the conventional basis of historical costs have been restated to show the impact of changed price levels on financial conditions and the results of operations (schedules 1A and 2A). Although these supplementary statements are based on the conventional statements, neither we nor the Commission's General Audit Division have audited them. We have, however, reviewed and concurred with the concepts and methods employed in their preparation.

Our examination was made pursuant to the Accounting and Auditing Act of 1950 (31 U.S.C. 65 _et. seq._) as specified in the Panama Canal Act of 1979 (22 U.S.C. 3601) and in accordance with generally accepted Government auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Our selection of tests and procedures considered both the relationship with the Commission's predecessor organization and the ability to rely on the work of the Commission's internal auditors.

On January 12, 1981, we examined and provided an unqualified opinion on the predecessor organization's financial statements for fiscal year 1979. 1/ Many of that organization's policies and practices were adopted by the Commission.

We were able to rely on our knowledge of the predecessor organization and on the General Auditor's work to substantially limit the extent of tests that would have otherwise been necessary.

As explained in chapter 2, the Panama Canal Commission has prepared its financial statements on the basis of accounting practices prescribed in the Panama Canal Act of 1979 and according to generally accepted accounting principles. These differ in some

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1/ "Examination of Fiscal Year 1979 Financial Statements of the Panama Canal Organization and Treaty-Related Issues" (ID-81-14).

aspects from the principles and standards prescribed by the Comptroller General for appropriated fund agencies which maintain accounts pursuant to the Accounting and Auditing Act of 1950.

In our opinion, the accompanying financial statements present fairly the financial position of the Panama Canal Commission at September 30, 1980, and the results of its first year of operations, changes in the investment of the United States, and changes in financial position for the fiscal year then ended, in conformity with principles prescribed in the preceding paragraph.

PANAMA CANAL COMMISSION
Balance Sheet
September 30, 1980

ASSETS

PROPERTY, PLANT AND EQUIPMENT:		
At cost (Note 2b).............................	$843,465,642	
Less accumulated depreciation and valuation allowances (Notes 2d, 3, and 4).....	384,231,884	
	459,233,758	
CURRENT ASSETS:		
Fund balances and cash (Note 5):		
Operating fund:		
Obligated.................................	76,894,964	
Unobligated to be returned to the U.S. Treasury (Schedule 3)....................	19,842,317	
Capital fund................................	20,186,122	
Postal fund.................................	186,784	
Trust fund..................................	1,360,268	
Cash receipts for deposit into U.S. Treasury.	1,661,600	
	120,132,055	
Accounts receivable, less allowance for doubtful accounts of $705,648 (Note 2e).......	21,961,456	
Other receivables (Note 6)....................	5,153,925	
	27,115,383	
Inventories, less allowance for obsolete and excess inventory of $481,529 (Note 2f)....	25,743,294	
Other current assets..........................	1,510,079	
	174,500,811	
OTHER ASSETS:		
Deferred charges:		
Retirement benefits to certain former employees of predecessor agencies (Note 2g).	13,412,000	
Other.......................................	1,272,140	
	14,684,140	
TOTAL ASSETS..................................	$648,418,709	

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Balance Sheet
September 30, 1980

LIABILITIES

INVESTMENT OF THE UNITED STATES:	
Invested capital:	
Interest-bearing (7.096%)(Note 7)	$148,246,061
Non-interest-bearing	236,530,780
	384,776,841
Current budgetary accounts:	
Obligated operating funds	76,894,964
Obligated capital funds	16,630,877
Unobligated capital funds	3,555,245
	97,081,086
	481,857,927
CURRENT LIABILITIES:	
Accounts payable:	
U.S. Treasury - Unobligated operating funds to be returned (Schedule 3)	19,842,317
U.S. Government agencies (Note 8)	13,972,693
Government of Panama	7,004,420
Other	6,468,939
	47,288,369
Accrued liabilities:	
Employees' leave	32,814,578
Salaries and wages	4,339,009
Retirement benefits to certain former employees of predecessor agencies (Note 2g)	1,613,000
Employees' repatriation	2,534,616
Claims for damages to vessels (Notes 6 and 9)	30,272,398
Earnings payable to Government of Panama (Note 10)	2,699,181
Other	2,114,577
	76,387,359
Other current liabilities:	
Capital factor (Note 2c)	6,909,190
Other	1,369,035
	8,278,225
	131,953,953
OTHER LIABILITIES AND RESERVES:	
Retirement benefits to certain former employees of predecessor agencies (Note 2g)	11,799,000
Employees' repatriation	8,188,000
Lock overhauls (Note 2h)	5,028,517
Unfunded liabilities for damages to vessels (Notes 6 and 9)	7,213,170
Casualty losses (Notes 2i and 11)	2,378,142
	34,606,829
TOTAL LIABILITIES	$648,418,709

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Operations and Non-Interest-Bearing Investment
Fiscal Year Ended September 30, 1980

OPERATING REVENUES:	
Tolls (Note 2a)	$293,443,942
Capital factor (Note 2c)	(6,909,190)
Net tolls revenue	286,534,752
Other	82,874,355
Total operating revenue	369,409,107
OPERATING EXPENSES:	
Payments to the Republic of Panama (Note 10):	
Public services	10,000,000
Fixed annuity	10,000,000
Tonnage	54,952,599
	74,952,599
Maintenance of channels and harbors	29,279,427
Navigation service and control	55,169,624
Locks operation	31,485,789
General repair, storehouse, engineering and maintenance services	8,522,796
Transportation and utilities	36,235,740
Housing operations	8,178,834
General and administrative	70,179,784
Interest	11,938,624
Other	40,766,709
Total operating expenses	366,709,926
NET REVENUE (Note 10)	2,699,181
INVESTED CAPITAL - NON-INTEREST-BEARING:	
Balance at beginning of year	226,897,674
Earnings payable to Government of Panama (Note 10)	(2,699,181)
Funds covered into the U.S. Treasury	(643,918)
Due U.S. Treasury for miscellaneous receipts	(1,661,600)
Interest on investment	11,938,624
Balance at end of year	$236,530,780

The accompanying notes are an integral part of this statement.

SCHEDULE 3

PANAMA CANAL COMMISSION
Statement of Changes in the Investment of the United States
Fiscal Year Ended September 30, 1980

	Invested Capital				
	Interest-Bearing	Non-Interest-Bearing	Operating Funds	Capital Funds	Total
Investment at October 1, 1979	$ 319,298,402	$226,897,674	$ -	$ -	$ 546,196,076
Asset transfers	(131,686,293)	-	-	-	(131,686,293)
Appropriation by the Congress for fiscal year 1980	-	-	427,158,000	36,625,000	463,783,000
Investment at October 1, 1979 (Note 7)	187,612,109	226,897,674	427,158,000	36,625,000	878,292,783
Increases in Investment:					
Expenditures from capital appropriations	16,438,878	-	-	(16,438,878)	-
Expenditures from operating appropriations	330,420,719	-	(330,420,719)	-	-
Interest on investment	-	11,938,624	-	-	11,938,624
Property transferred from other U.S. Government agencies	34,640	-	-	-	34,640
Net Revenue (Note 10)	-	2,699,181	-	-	2,699,181
	346,894,237	14,637,805	(330,420,719)	(16,438,878)	14,672,445
Decreases in Investment:					
Funds covered into the U.S. Treasury	3,269,096	643,918	-	-	3,913,014
Funds to be covered into the U.S. Treasury	-	-	19,842,317	-	19,842,317
Tolls and other receipts deposited by the Panama Canal Commission	376,001,779	-	-	-	376,001,779
Due U.S. Treasury for miscellaneous receipts	4,892,198	1,661,600	-	-	6,553,798
Property transferred to the Government of Panama	1,300,130	-	-	-	1,300,130
Property transferred to other U.S. Government agencies	797,082	-	-	-	797,082
Earnings payable to Government of Panama (Note 10)	-	2,699,181	-	-	2,699,181
	386,260,285	5,004,699	19,842,317	-	411,107,301
Investment at September 30, 1980 (Note 7)	$ 148,246,061	$236,530,780	$ 76,894,964	$ 20,186,122	$ 481,857,927

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Changes in Financial Position
Fiscal Year Ended September 30, 1980

SOURCE OF FUNDS:	
From Operations:	
Revenue	$369,409,107
Less operating expenses:	
Interest on net direct investment	11,938,624
Payments to the Republic of Panama (Note 10)	74,952,599
Other expenses	279,818,703
Total operating expenses	366,709,926
Net revenue (Note 10)	2,699,181
Add transactions not requiring outlay of funds:	
Depreciation (Note 2d)	17,779,979
Amortization and adjustment of deferred items	45,207
Provision for Canal lock overhauls (Note 2h)	2,727,000
Provision for casualty losses (Note 2i)	10,671,433
Interest on net direct investment	11,938,624
Other	2,666,690
Total source of funds	48,528,114
APPLICATION OF FUNDS:	
Canal lock overhauls expenditures	4,724,648
Casualty losses	9,214,092
Accrued capital expenditures	17,805,823
Reduction in equity of the United States	44,370,747
Total application of funds	76,115,310
Increase (decrease) in working capital	$(27,587,196)

	Increase (decrease)
Current Assets:	
Cash	$ (186,564)
Receivables	(1,319,116)
Inventories	(901,330)
Other	(582,121)
	(2,989,131)
Current Liabilities:	
Accounts payable	(18,901,467)
Accrued liabilities	(5,696,598)
	(24,598,065)
Increase (decrease) in working capital	$(27,587,196)

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
STATEMENT OF STATUS OF APPROPRIATIONS
SEPTEMBER 30, 1980

Source of Appropriations (Schedule 3):

Appropriations for Salaries and Expenses, 1980..........	$427,262,000
Less Rescissions......................................	(104,000)
Appropriations for Capital Expenditures, 1980 (No Year).	36,625,000
Total..	$463,783,000

Application of Appropriations (Schedule 3):

Expenditures from Operating Appropriations..............	$330,420,719
Expenditures from Capital Appropriations................	16,438,878
Funds reserved at Year-End for Payment of Liabilities and Undelivered Orders, Operations.....................	76,894,964
Funds Reserved at Year-end for Payment of liabilities and Undelivered Orders, Capital.......................	16,630,877
Unobligated Balance of 1980 Operating Appropriation Lapsed.........................	19,842,317
Unobligated Balance of 1980 Capital Appropriation (No Year) Retained..............	$ 3,555,245
Total..	$463,783,000

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Property, Plant and Equipment
September 30, 1980

	1980	
	Cost	Depreciation and valuation allowances
Titles and treaty rights............	$ 14,728,889	$ 2,669,612
Interest during construction........	50,892,311	50,892,311
Canal excavation, fills and embankments........................	333,607,377	57,302,181
Canal structures and equipment......	211,934,740	120,583,287
Supporting and general facilities...	161,843,554	97,336,282
Minor items of plant and equipment.........................	12,068,270	12,068,270
Facilities held for future use......	4,056,163	3,234,143
Plant additions in progress.........	14,188,540	-
Suspended construction projects.....	40,145,798	40,145,798
TOTAL.........................	$843,465,642	$384,231,884

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION

Notes to Financial Statements

1. Treaty Impact.

On September 7, 1977 the United States of America and the Government of Panama signed the Panama Canal Treaty of 1977, hereafter referred to as the Treaty, and a Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal. These Treaties were ratified by both countries and entered into force on October 1, 1979. The Treaty terminated the prior treaties pertaining to the Panama Canal. On September 27, 1979, the United States Congress passed the Panama Canal Act of 1979 (Public Law No. 96-70), hereafter referred to as the Act, to provide legislation necessary for the implementation of the Treaty and for the operation and maintenance of the Panama Canal under the Treaty.

The Treaty provided for the Government of Panama to assume complete sovereignty over the former Canal Zone, and to gradually assume control of the operation and defense of the Panama Canal over the period 1979 through 1999. The Treaty also provided for the establishment of the Panama Canal Commission on October 1, 1979 to assume certain operational responsibilities that previously were the responsibilities of the Panama Canal Company and the Canal Zone Government.

When the Treaty terminates on December 31, 1999, all of the assets of the Panama Canal Commission will have been transferred to the Government of Panama based upon the prescriptions of the Treaty and the Act. The effects of these long range requirements are not considered in the financial statements.

2. Summary of Significant Accounting Policies.

a. Cost recovery. The application of generally accepted accounting principles to the Panama Canal Commission, a U.S. Government agency comparable to a rate-regulated public utility, determines the manner in which costs are recognized. The basis for toll rates is prescribed in section 1602(b) of the Act. This section of the act, known as the "statutory tolls formula", provides that:

> "Tolls shall be prescribed at rates calculated to produce revenues to cover as nearly as practicable all costs of maintaining and operating the Panama Canal, together with the facilities and appurtenances related thereto, including unrecovered costs incurred on or after the effective date of this Act, interest, depreciation, payments to the Republic of Panama pursuant to paragraph 5 of Article III and paragraph 4(a) and (b) of Article XIII of the Panama Canal Treaty of 1977, and capital for plant replacement, expansion, and improvements. Tolls shall not be prescribed at rates calculated to produce revenues sufficient to cover payments to the Republic of Panama pursuant to paragraph 4(c) of Article XIII of the Panama Canal Treaty of 1977."

Under this statutory tolls formula, any unrecovered costs are to be recovered from future tolls revenues. Any amounts thus to be recovered from subsequent earnings are transferred from "Equity in Panama Canal" to an account within the "Other Assets" classification. To the extent subsequent annual revenues exceed subsequent costs incurred, unearned costs equivalent to such net revenues realized are charged back to the "Equity in Panama Canal" account.

b. Property, plant and equipment. Property, plant and equipment are recorded at original cost or, if acquired from another Government agency, at the value determined by the Director of the Office of Management and Budget. Administrative and other general expenses and the cost of funds used during construction are not capitalized. The cost of minor items of property, plant and equipment is charged to expense.

c. Capital Factor. A portion of tolls is designated for plant replacement, expansion and improvements, the costs of which are in excess of funds provided through depreciation reserves. The capital factor realized may only be used for capital expenditures. Plant replacement, expansion or improvements purchased with funds generated by the capital factor shall be excluded from depreciation computation.

d. Depreciation. Depreciation is provided using a straight-line method applied on a composite basis. This method provides straight-line depreciation plus additional annual depreciation, identified as composite, to provide for premature plant retirements.

e. Accounts receivable. Uncollectible accounts receivable of the Panama Canal Commission are recognized as a reduction in revenue when written off. Any subsequent collections of Commission accounts receivable previously written off will be recorded as revenue. The allowance for doubtful accounts which appears on the Commission books is applicable only to the receivables of predecessor agencies.

f. Inventories. Operating materials and supplies are stated at average cost, plus cost of transportation to the ultimate destination on the Isthmus of Panama. An allowance to reflect the estimated cost of obsolete and excess materials and supplies is established by a monthly charge to expense.

g. Retirement benefits. Employer payments to the contributory Civil Service Retirement System or to the Republic of Panama Social Security System are charged to expense. The Commission has no liability for future payments to employees under these systems.

Non-United States citizen employees who retired from predecessor agencies prior to October 5, 1958 are not covered by the Civil Service Retirement System but do receive benefits under a separate annuity plan. The amounts of the payments made under this annuity plan are recorded as a current-year expense. The liability of the Commission for future annuity payments to these former employees or their eligible widows is reflected in the balance sheet as "Retirement Benefits to Certain Former Employees of Predecessor Agencies" and an equal amount is recorded as a Deferred Charge.

As required by the Panama Canal Act of 1979, the Panama Canal Commission is liable for the increase in the unfunded liability of the Civil Service Retirement Fund which is attributable to benefits payable from that fund to, or on behalf of, employees and their survivors under the early retirement provisions of the Act. The annual installment to liquidate the increased liability is determined by the Office of Personnel Management.

h. Reserve for lock overhauls. A reserve is provided through an annual charge to expense to cover the estimated cost of periodic lock overhauls.

i. Reserve for casualty losses. A reserve is provided through an annual charge to expense to cover the estimated cost of marine accidents, fire and other casualty losses.

j. Housing use rights. No monetary value is assigned to the rights granted to the United States by the Republic of Panama to use Canal Area housing transferred to the Republic under terms of the Treaty. The cost to manage, maintain and provide livability improvements to these quarters will be charged to expense. Rental income is included in other revenues.

3. Plant Valuation Allowances.

At July 1, 1951, certain valuation allowances for property, plant and equipment being transferred from the Panama Canal (agency) to the Panama Canal Company and the Canal Zone Government were established, to reduce to usable value the costs of the assets transferred. At October 1, 1979 such valuation allowances as were applicable to the assets being transferred from the Panama Canal Company and the Canal Zone Government to the Panama Canal Commission were absorbed. At September 30, 1980, the following valuation allowances remain on the books of the Panama Canal Commission: (a) $5.9 million to reduce to usable value the cost of property, plant and equipment transferred; (b) $50.9 million to offset interest costs imputed for the original construction period; and (c) $59.8 million to offset the cost of defense facilities and suspended construction projects, the latter being principally the partial construction of a third set of locks abandoned in the early part of World War II.

Property, plant and equipment offset by valuation allowances, when fully or partially reactivated, are reinstated by a reduction in the valuation allowance and by an increase to the interest-bearing net direct investment of the United States in proportion to the value to the Commission of the reactivated asset.

4. Depreciation as a Percentage of Average Cost of Plant.

The provision for depreciation, expressed as a percentage of average cost of depreciable plant exclusive of valuation allowances, was 2.46% for fiscal year 1980.

5. Cash.

The cash balance of $120,132,055 is made up of $114,784,198 on deposit in the U.S. Treasury, $4,177,010 on deposit in commercial banks, and $1,170,847 on hand. Of the amount on deposit in the U.S. Treasury $19,842,317 of unobligated operating funds will be withdrawn.

Included in the cash balances are trust funds of $1,360,268, and postal funds of $186,784 which are offset in appropriate liability accounts. The trust fund primarily includes deposits made by customers for future tolls and other service payments. The postal fund consists of outstanding money orders, postal savings and interest accrued thereon.

6. Other Receivables.

Other receivables represent services provided in connection with ship accidents for which the Commission is considered to be at least partially responsible. The amounts are included in the computation of estimated liabilities established for damages to vessels.

7. Interest-Bearing Net Direct Investment.

The interest-bearing net direct investment assumed by the Panama Canal Commission on October 1, 1979 was computed as follows:

	Millions of Dollars
From Panama Canal Company	$319.3
Transfer to Government of Panama	(74.7)
Transfer to Department of Defense	(1.0)
Transfer from Canal Zone Government	15.3
Panama Canal Company cash turned into the U.S. Treasury	(71.3)
	$187.6

During fiscal year 1980, this investment was increased by disbursements of $346.9 million, decreased by receipts of $384.2 million, and decreased by net property transfers of $2.1 million.

8. Accounts Payable - U.S. Government Agencies.

Included in the accounts payable due to U.S. Government agencies are ship accident and other claims in the amount of $4.9 million that were forwarded to the Department of Justice in Washington, D.C. after reaching a settlement or receiving a judgement for approval for payment.

9. Claims for Damages to Vessels.

Liabilities arising from claims for damages to vessels are divided into fund and non-fund categories. The fund category is made up of the following:

a. Accidents which occurred prior to October 1, 1979.
b. Accidents which occurred within the Canal locks.
c. Accidents which occurred outside the locks, for which the claim is $120,000 or less per ship per accident.

Settlement of liabilities for ship accidents which occurred outside the locks where the claim exceeds $120,000 require specific Congressional approval. For this reason, until approval is received, liabilities for these accidents are booked as non-fund.

10. Payments to the Republic of Panama.

Based on Article III and Article XIII of the Treaty, the Republic of Panama has received payment for public services, fixed annuity and thirty cents per net ton. In addition to these payments, revenue in the amount of $2.7 million is payable to the Government of Panama in accordance with paragraph 4(c) of Article XIII, which states that an annual amount of up to $10 million will be paid out of Canal operating revenues to the extent that such revenues exceed expenditures of the Panama Canal Commission. This amount is subject to the limitations set forth in Chapter 3, Subchapter V, Section 1341(e) of the Panama Canal Act of 1979 (Public Law No. 96-70).

11. Reserve for Casualty Losses.

The reserve for casualty losses at September 30, 1980 of $2.4 million includes $1.5 million for marine accidents and $0.9 million for other. The monthly accrual of reserve for marine accidents in fiscal year 1980 was $0.5 million per month for a total of $6.0 million. An additional total of $4.5 million accrual was booked in June, August, and September, when it became apparent that the monthly accrual would be inadequate for the account to sustain an appropriate balance.

12. Delayed Billing for Services.

Revenues do not include certain Canal Support Division billings for transit-related services which were inadvertently not recognized during the fiscal year, due to conditions arising out of the Treaty-related reduction-in-force process with its inherent disruption of a trained staff. The error in billing tug services, evaluated at the 95% reliability level from the sample taken, resulted in an estimate of total underbilling of $553,941 for the eight-month period covered in the sample. The precision of the estimate (the range or limits within which the sample result is expected to be accurate) is plus or minus $166,329, or a lower precision limit of $387,612 and an upper precision limit of $720,270 for the eight-month period. Assuming that the other four months of the fiscal year not in the sample followed the same error pattern, the under-estimate of revenue would be between $581,418 and $1,080,405. As of the balance sheet date the known revenue was immaterial. Audit is being made and proper adjustments will be recorded as determined in fiscal year 1981.

13. Contingent Liabilities and Commitments.

The estimated maximum liability, in addition to liabilities taken into the accounts, which could result from pending claims and lawsuits was $9.4 million at September 30, 1980. In the opinion of management and Commission counsel, these pending claims and lawsuits will be resolved with no material adverse effect on the financial condition of the agency.

Commitments under uncompleted construction contracts and unfilled purchase orders amounted to $37.3 million at September 30, 1980. Of this amount, $1.1 million in unfilled purchase orders were prepaid. In addition, the Panama Canal Commission is liable for an indeterminable amount with respect to death and disability payments under the Federal Employees' Compensation Act.

Cash and negotiable securities of a kind acceptable by the United States Government in the amount of $7.0 million were on deposit in a United States depository designated by the Panama Canal Commission at September 30, 1980 to guarantee payment by third parties of their obligations.

The Panama Canal Act of 1979 (Public Law No. 96-70), Chapter 2, Subchapter IV, Section 1244, places the liability with the Panama Canal Commission for that portion of any estimated increase of retirement benefits paid under the Civil Service Retirement System due to the early retirement benefits granted in Chapter 2, Subchapter IV, of the Act. As of September 30, 1980, the Commission's minimum liability through December 31, 1999 amounted to approximately $317.1 million based on information furnished by the Office of Personnel Management.

PANAMA CANAL COMMISSION
General Price-Level Balance Sheet
September 30, 1980
(Unaudited)

ASSETS	Historical Dollars	General Price-Level Dollars
	(Dollars in thousands)	
PROPERTY, PLANT AND EQUIPMENT:		
At cost	$843,466	$2,502,085
Less accumulated depreciation and valuation allowances	384,232	1,186,977
	459,234	1,315,108
CURRENT ASSETS:		
Fund balances and cash:		
Operating fund:		
Obligated	76,895	76,895
Unobligated-To be returned to the U.S. Treasury	19,842	19,842
Capital fund	20,186	20,186
Postal fund	187	187
Trust fund	1,360	1,360
Cash receipts on hand for deposit into U.S. Treasury	1,662	1,662
	120,132	120,132
Accounts receivable - net	21,962	21,962
Other receivables	5,154	5,154
	27,116	27,116
Inventories:		
Materials and supplies - net	25,743	26,644
Other current assets	1,510	1,510
	174,501	175,402
OTHER ASSETS:		
Deferred charges:		
Retirement benefits to certain former employees of predecessor agencies	13,412	13,412
Other	1,272	1,576
	14,684	14,988
TOTAL ASSETS	$648,419	$1,505,498

The accompanying notes summarize the methods employed in the preparation of this statement.

PANAMA CANAL COMMISSION
General Price-Level Balance Sheet
September 30, 1980
(Unaudited)

L I A B I L I T I E S	Historical Dollars	General Price-Level Dollars
	(Dollars in thousands)	
INVESTMENT IN THE UNITED STATES:		
Invested capital:		
Interest-bearing	$148,246	$ 862,122
Non-interest-bearing	236,531	373,240
	384,777	1,235,362
Current budgetary accounts:		
Obligated operating funds	76,895	76,895
Obligated capital funds	16,631	16,631
Unobligated capital funds	3,555	3,555
	97,081	97,081
	481,858	1,332,443
CURRENT LIABILITIES:		
Accounts payable:		
U.S. Treasury-unobligated operating funds to be returned	19,842	19,842
U.S. Government agencies	13,973	13,973
Government of Panama	7,005	7,005
Other	6,469	6,469
	47,289	47,289
Accrued liabilities:		
Employees' leave	32,815	32,815
Salaries and wages	4,339	4,339
Retirement benefits to certain former employees of predecessor agencies	1,613	1,613
Employees' repatriation	2,535	2,535
Claims for damages to vessels	30,272	30,272
Earnings payable to Government of Panama	2,699	2,699
Other	2,114	2,114
	76,387	76,387
Other current liabilities:		
Capital factor	6,909	6,909
Other	1,369	1,369
	8,278	8,278
	131,954	131,954
OTHER LIABILITIES AND RESERVES:		
Retirement benefits to certain former employees of predecessor agencies	11,799	11,799
Employees' repatriation	8,188	8,188
Lock overhauls	5,029	10,688
Unfunded liabilities for damages to vessels	7,213	7,466
Casualty losses	2,378	2,960
	34,607	41,101
TOTAL LIABILITIES	$648,419	$1,505,498

The accompanying notes summarize the methods employed in the preparation of this statement.

PANAMA CANAL COMMISSION
General Price-Level Income Statement
For the Year Ended September 30, 1980
(Unaudited)

	Historical Dollars	General Price-Level Dollars
	(Dollars in thousands)	
Operating revenues	$369,409	$382,339
Operating expenses:		
Cost of goods sold	616	638
Interest	11,939	12,356*
Operating expense	304,438	315,094
Administrative expense	31,937	33,055
Depreciation	17,780	48,673
	366,710	409,816
Operating revenue or (loss)	2,699	(27,477)
General price-level gain or (loss)	-	4,632
NET REVENUE (LOSS)	$ 2,699	$(22,845)

The accompanying notes summarize the methods employed in the preparation of this statement.

*Reflects only the actual interest paid and no imputed costs of equity capital.

PANAMA CANAL COMMISSION

Notes to Price-Level Financial Statements

1. Methods employed in the preparation of the general prive-level financial statements:

a. Historical dollars are restated in terms of purchasing power at the end of fiscal year 1980. The change in the value of money has been measured by using the gross national product implicit price deflators provided by the U.S. Department of Commerce.

b. The restatement of revenues and expenses, except for depreciation, reflects the change in purchasing power of the dollar during the current fiscal year. The restatement of depreciation expenses for the year is based upon the investment in property, plant and equipment revalued to reflect their ages. Property, plant and equipment and the investment of the United States are restated from July 1, 1951, the date of reorganization of the enterprise, although the major proportion of the plant facilities, e.g., the Canal itself and the locks, were placed in service in 1914.

c. The net change in valuation of assets and liabilities, normally an increase during a period of inflation, is credited to the investment.

d. Generally accepted accounting principles have been followed except to reflect the change in the purchasing power of the dollar.

2. Price-level-adjusted cost of property, plant and equipment does not purport to be replacement cost.

DOD TREATY-RELATED COSTS FOR FISCAL YEAR 1980 (note a)

Army	
Base Operations	$11,348,807
Communications	1,570,913
Commissary	1,520,041
Transportation	326,596
Ports	157,381
Technical Assistance	64,430
Health Services	15,671,694
Disposition of Remains	133,662
Criminal Investigations	43,541
Tropic Test Center	15,128
Procurement of Equipment	2,653,826
Military Construction	20,870,622
Military Pay	4,540,390
Total Army	$58,917,031
Air Force	3,028,935
Navy	309,740
DOD Dependent Schools	2,357,000
Defense Mapping Agency	1,209,264
Total DOD Treaty-Related Cost	$65,821,970

a/ These amounts represent obligations incurred rather than actual incurred expenditures. Actual cost amounts were not available. The amounts shown are rounded to the nearest dollar.

TREATY COST/SAVINGS - FISCAL YEAR 1980
NON-DOD AGENCIES

Agency	Cost/Savings (in parenthesis)
State Department	($1,620,475)
Foreign Broadcast Information Service	7,000
National Oceanic Atmospheric Administration	1,000
Federal Aviation Administration	(923,000)
Canal Area Court System - Clerk of Court	(41,000)
Smithsonian Tropical Research Institute	366,000
American Battle Monuments Commission	154,000
Gorgas Memorial Laboratory	52,000
Bureau of Prisons	34,000
Total net savings	($1,970,475)

PROPERTY TRANSFERRED BY THE DEPARTMENT OF DEFENSE TO REPUBLIC OF PANAMA - FISCAL YEAR 1980

	Cost (note a)
Army	
Coco Solo	$14,163,510
Albrook/Curundu	8,079,710
Fort Amador	4,869,359
Fort Kobbe	407,966
Fort Sherman	235,714
France Field	158,393
Quarry Heights	142,113
Other	724,114
Total Army	$28,780,879
Navy	
Balboa Drydock Areas	$ 3,919,005
Other	754,628
Total Navy	4,673,633
Total DOD Property Transfers	$33,454,512

a/Amounts are rounded to nearest dollar.

PROPERTY TRANSFERRED TO THE REPUBLIC OF PANAMA BY THE PANAMA CANAL COMMISSION AND ITS PREDECESSOR ORGANIZATION SINCE SEPT. 30, 1979

PLANT ITEMS	
Canal Zone Government	(note a)
Postal buildings and equipment	$ 192,093
Police building	3,195
Fire station	21,006
Fire hydrants and sewer systems	672,480
Schools	216,005
Roads, streets and sidewalks	4,562,874
Permanent townsites	448,768
Street lighting systems	1,197,827
Civil Affairs - recreational facilities	218,686
Palo Seco hospital	61,821
Miscellaneous Government buildings	2,552,350
	$10,147,105
Panama Canal Company	
Channels, harbors and basins	$14,139,038
Dredging navigational lighthouses	8,089
Launch landing, launches and equipment	173,457
Vessel repair building and equipment	824,183
Maintenance building	13,967
Thatcher Ferry Bridge	12,910,691
Marine bunkering buildings and equipment	4,193,588
Employee housing	34,984,977
Balboa cafeteria, theater, bowling alley, and other service buildings and equipment	2,742,101
Panama Railroad	2,298,232
Motor vehicles	312,423
Power systems	314,864
Communications systems	162,710
Water systems	125,419
Miscellaneous Company buildings	858,326
	$74,062,065
Other	
PCC/CZG inventory and other assets	$ 677,054
	$84,886,224
Commission	
Commission plant transferred in FY 1980	$ 1,158,184
Commission inventory transferred in FY 1980	141,946
	$ 1,300,130
TOTAL	$86,186,354

a/Amounts are rounded to nearest dollar

PANAMA CANAL COMMISSION

APO MIAMI 34011

OFFICE OF THE ADMINISTRATOR

February 6, 1981

The Honorable Elmer B. Staats
Comptroller General of the United States
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Staats:

In connection with your examination of the financial statements of the Panama Canal Commission as of September 30, 1980 and for the fiscal year then ended, we confirm, to the best of our knowledge and belief, the following representations made to members of your staff during the examination:

1. The Panama Canal Commission is responsible for the fair presentation in the financial statements of financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles as specified by the Panama Canal Act of 1979 (P.L. 96-70).

2. We have made available to your staff--

   a. All financial records and related data.
   b. Minutes of the meetings of the Board of Directors and committees of the Board.

3. There have been no--

   a. Irregularities involving management or employees who have significant roles in the system of internal accounting control.
   b. Irregularities involving other employees that could have a material effect on the financial statements.

4. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

5. There are no material transactions that have not been properly reflected in the financial statements.

6. There are no--

   a. Violations or possible violations of laws or regulations that should be considered for disclosure in the financial statements.

b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Financial Accounting Standards Board Statement No. 5.

7. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

8. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements.

Sincerely yours,

D. P. McAuliffe
Administrator

W. D. Bjorseth
Chief Financial Officer

AN EQUAL OPPORTUNITY EMPLOYER

UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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