BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The Panama Canal Commission's Financial Statements For The Years Ended September 30, 1982 And 1981

GAO examined the financial statements of the Panama Canal Commission for the years ended September 30, 1982 and 1981. The examination was made in accordance with generally accepted government auditing standards.

In GAO's opinion, subject to a determination by the Congress regarding how interest on the U.S. investment in the Panama Canal should be computed and except for the application of capitalization policies on several navigational improvement projects, the statements present fairly the financial position of the Commission and the results of its operations and changes in its financial position for the years then ended. The combined effect of these issues could be to understate fiscal year 1982 operating expenses by about $28 million and overstate amounts payable to the Republic of Panama by $378,635.

The Commission prepares its statements in accordance with the requirements of the Panama Canal Act of 1979. They conform with generally accepted accounting principles except where modified by the Commission to meet requirements of law.

GAO/NSIAD-83-34
SEPTEMBER 2, 1983

Request for copies of GAO reports should be sent to:

U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760

Telephone (202) 275 6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are $3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are $1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".

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

B-204078

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

We have examined the balance sheets of the Panama Canal Commission as of September 30, 1982 and 1981, and the related statements of operations and non-interest-bearing investment; changes in the investment of the United States; changes in financial position; status of appropriations; and property, plant, and equipment for the years then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances. In connection with our examination, we also made a limited study and evaluation of the Commission's system of internal accounting control and tested its compliance with applicable laws and regulations.

As described in note 1 to the financial statements, the Commission's policy is to prepare its financial statements on the basis of accounting practices prescribed by the Panama Canal Act of 1979, which differ in some respects from generally accepted accounting principles. The accompanying financial statements are intended to present the financial position and results of operations in conformity with generally accepted accounting principles except as modified in accordance with the Act. This report is intended to fulfill our audit responsibilities to the Congress under section 1313(b) of the Panama Canal Act of 1979 (22 U.S.C. 3601-3871 (Supp. IV 1980)).

The Commission has accounting policies, which we have approved, concerning capitalization. These policies provide that major units of property, plant and equipment, including renewals and betterments to such assets, be capitalized. The cost of minor items of property, plant, and equipment is charged to expense as incurred. Additionally, these policies require that the recurring cost of dredging the waterway be charged to expense. Non-recurring dredging costs for substantial improvements and betterments to the waterway are considered major additions to the Canal and are capitalized and depreciated over their estimated service lives.

Under these policies, the Commission expensed the cost of some projects for the years ended September 30, 1982 and 1981, which appear to provide long-term Canal navigational improvements. In our opinion, the Commission's decision to expense rather than capitalize the cost of these projects is not in keeping with approved capitalization policy.

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 and provides a formula for determining and adjusting the amount of that investment. The Commission, based on its interpretation of the legislation, computes interest on only a decreasing portion of what the United States has invested in the Canal. However, the legislation does not specifically state whether the Commission should compute interest on the entire investment or only on the net direct investment of the United States. Because of the uncertainty regarding the method of computing the return on U.S. investment in the Canal, we issued a report[1] on March 22, 1983, which concluded that changes were needed to the Panama Canal Act of 1979 to provide for (1) computing interest on the total U.S. investment, (2) paying the interest to the benefit of the United States, and (3) recovering amounts that should have been paid in prior years. These actions would also prevent further erosion of the U.S. investment in the Canal.

The combined effect of the capitalization issue and a determination by the Congress that interest should be computed on the total U.S. investment could be material understatements of expenses--$28.0 million for 1982 and $29.6 million for 1981--with an overstatement of $378,635 shown as payable to the Republic of Panama as a result of 1982 operations.

The Commission takes exception to our position on application of capitalization policies as well as on its method of computing interest on the U.S. investment in the Canal. It considers the projects in question to be for maintenance and thus properly expensed. The Commission further holds that it has correctly interpreted legislation pertaining to computation of interest on investment and has applied it in accordance with the intent of the Congress.

In our opinion, except for the effects of the matter discussed in paragraphs 3 and 4, and subject to the effects on the statements of adjustments, if any, as is dependent on the determination by the Congress to resolve the uncertainty referred to in paragraph 5, the financial statements for fiscal years 1982 and

---

[1] Return on U.S. Investment in the Panama Canal (GAO/ID-83-36).

1981 referred to above present fairly the financial position of the Panama Canal Commission at September 30, 1982 and 1981 and the results of the Commission's operations and changes in the investment of the United States, and changes in financial position for the years then ended. The financial statements are presented on the basis of accounting described in paragraph 2 above which has been applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for the cost of early retirement benefits as described in note 6 to the financial statements.

As required by the Act, we are sending copies of this report to the President, the Secretary of the Treasury, and the Administrator of the Panama Canal Commission. We are also sending copies to the Director, Office of Management and Budget and to the Secretaries of State, Defense, and the Army.

Milton J. Socolar

for Comptroller General
of the United States

Appendixes

PANAMA CANAL COMMISSION

REPORT ON INTERNAL ACCOUNTING CONTROLS

As part of our examination of the Panama Canal Commission's financial statements for the years ended September 30, 1982 and 1981, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1982. For the purpose of this report, we have classified the significant internal accounting controls in the following categories.

--Cash

--Revenues

--Expenditures

--Inventory

--Fixed plant and equipment

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

The management of the Commission is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting practices prescribed by the Panama Canal Act of 1979.

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

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Panama Canal Commission taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

Although our study and evaluation disclosed no material weaknesses, it disclosed the continuing mislocation of the internal audit function in the Office of Financial Management. In our report dated November 22, 1982 (GAO/ID-83-14), we pointed out that the organizational location of the Commission's internal audit function did not meet generally accepted government auditing standards for independence and impartiality. The organizational location of the internal audit function has not been changed.

The Commission believes its internal audit reporting procedures meet the test of independence and sees no need for change. The Commission states that independence is exercised in selecting and scheduling audits and that reports on findings and recommendations are directed to the Administrator. However, we noted that the Commission's General Auditor reports to the Chief Financial Officer and that it is this officer who provides performance ratings and evaluations for the General Auditor. In view of these organizational relationships, we believe generally accepted government auditing standards are not being met, since these standards require that internal auditors (1) report directly to the head or deputy head of the entity and (2) be organizationally located outside staff or line management functions subject to audit.

PANAMA CANAL COMMISSION

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Panama Canal Commission for the years ended September 30, 1982 and 1981. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1982.

In our opinion, the Panama Canal Commission, except for the matter discussed in paragraph 4 below and the matter of determining investment base discussed in our opinion on financial statements, complied with the terms and provisions of laws and regulations for the transactions tested.

Nothing came to our attention in connection with our examination that caused us to believe that the Commission was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

The Act required that the $10 million public service payments by the Commission to the Republic of Panama be adjusted at the end of the third year of operation, which was September 30, 1982. This year, as in past years, the Republic of Panama did not provide sufficient data to permit either adjustment or meaningful audit. Both the Commission and the U.S. Ambassador have met with Panamanian officials to express concern about the absence of adequate data but, to date, necessary documentation has not been provided. In the absence of the data, the Commission has decided to continue paying for public services at the same rate as in past years.

In our report on the years ended September 30, 1981 and 1980 (GAO/ID-83-14), we raised a question about compliance with certain congressionally established spending limits. The matter was not resolved but, because the appropriations act for fiscal year 1983 no longer contains the limits about which questions were raised, we have discontinued our inquiry into this matter.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination, and these conditions, except for the matter of determining investment base discussed in our opinion on financial statements, do not affect our opinion on the Commission's financial statements.

PANAMA CANAL COMMISSION
Balance Sheet
September 30, 1982 and 1981

ASSETS	1982	1981
PROPERTY, PLANT AND EQUIPMENT:		
At cost (Note 1c)	$853,314,309	$866,931,982
Less accumulated depreciation and valuation allowances (Notes 1e, 2 and 3)	386,676,308	400,615,590
	466,638,001	466,316,392
CURRENT ASSETS:		
Fund balances and cash (Notes 4, 5 and 6a):		
Operating funds	74,440,013	59,433,349
Capital funds	21,424,115	25,475,158
Emergency fund	10,000,000	10,000,000
Postal fund	167,723	169,352
Trust fund	1,015,983	1,196,306
Cash receipts for deposit into U.S. Treasury	576,536	368,145
	107,624,370	96,642,310
Accounts receivable, less allowance for doubtful accounts of $50,612 and $125,760, respectively (Note 1f)	9,987,875	11,278,598
Other receivables (Note 7)	826,867	1,201,581
	10,814,742	12,480,179
Inventories, less allowance for obsolete and excess stock of $800,000 and $717,561, respectively (Note 1g)	34,580,616	40,284,331
Other current assets	203,737	360,073
	153,223,465	149,766,893
OTHER ASSETS:		
Deferred charges:		
Cost of early retirement benefits (Notes 1h and 6b)	332,520,000	350,650,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h)	11,940,000	12,416,000
Other	816,426	1,020,532
	345,276,426	364,086,532
Unrecovered costs due from subsequent revenues (Notes 1b and 8)	-	917,258
	345,276,426	365,003,790
TOTAL ASSETS	$965,137,892	$981,087,075

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Balance Sheet
September 30, 1982 and 1981

LIABILITIES	1982	1981
INVESTMENT OF THE UNITED STATES GOVERNMENT:		
Invested capital:		
Interest-bearing (9.178% and 8.402%, respectively)(Note 9)	$ 89,763,345	$128,419,111
Non-interest-bearing	258,511,310	249,101,935
	348,274,655	377,521,046
Current budgetary accounts (Note 4):		
Obligated operating funds	74,440,013	59,433,349
Obligated capital funds	15,705,670	17,371,012
Unobligated capital funds	5,718,445	8,104,146
Unobligated emergency fund	10,000,000	10,000,000
	105,864,128	94,908,507
	454,138,783	472,429,553
CURRENT LIABILITIES:		
Accounts payable (Note 6a):		
U.S. Government agencies (Note 10)	22,808,314	19,367,682
Government of Panama	7,090,498	8,397,367
Other	6,197,843	3,672,626
	36,096,655	31,437,675
Accrued liabilities:		
Employees' leave	36,427,154	34,711,831
Salaries and wages	5,624,977	5,278,400
Cost of early retirement benefits (Notes 1h and 6b)	19,560,000	18,130,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h)	1,483,000	1,506,000
Employees' repatriation	1,743,000	2,427,000
Ship accident claims (Notes 7 and 11)	11,032,030	11,514,828
Net revenue payable to Government of Panama (Note 12)	378,635	-
Other	2,027,612	1,120,525
	78,276,408	74,688,584
Other current liabilities:		
Advances for capital (Notes 1d and 13)	23,336,205	16,785,190
Unfunded ship accident claims (Notes 7 and 11)	20,553,489	13,870,414
Other	916,418	1,195,849
	44,806,112	31,851,453
	159,179,175	137,977,712
LONG-TERM LIABILITIES AND RESERVES:		
Cost of early retirement benefits (Notes 1h and 6b)	312,960,000	332,520,000
Retirement benefits to certain former employees of predecessor agencies (Note 1h)	10,457,000	10,910,000
Employees' repatriation	10,998,000	10,086,000
Lock overhauls (Note 1i)	8,294,198	7,965,051
Casualty losses (Notes 1j and 14)	9,110,736	9,198,759
	351,819,934	370,679,810
TOTAL LIABILITIES	$965,137,892	$981,087,075

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Operations and Non-Interest-Bearing Investment
Fiscal Years Ended September 30, 1982 and 1981

	1982	1981
OPERATING REVENUES:		
Tolls (Note 1b)	$325,589,097	$303,080,358
Advances for capital (Note 1d)	(681,000)	(9,876,000)
Net tolls revenue	324,908,097	293,204,358
Other	112,946,382	94,822,263
Advances for capital (Note 13)	(5,870,015)	-
Net other revenue	107,076,367	94,822,263
Total operating revenue	431,984,464	388,026,621
OPERATING EXPENSES:		
Payments to the Government of Panama (Note 12):		
Public services	10,000,000	10,000,000
Fixed annuity	10,000,000	10,000,000
Tonnage	61,193,887	56,862,970
	81,193,887	76,862,970
Maintenance of channels and harbors (Notes 1L and 6c)	45,203,812	29,598,168
Navigation service and control	79,067,472	65,799,050
Locks operation	45,998,340	41,049,238
General repair, storehouse, engineering and maintenance services	11,305,378	11,209,161
Transportation and utilities	36,403,300	36,221,226
Housing operations	8,136,555	6,677,494
General and administrative (Note 15)	72,226,412	69,979,767
Interest	9,123,826	11,254,119
Other	42,029,589	40,292,686
Total operating expenses	430,688,571	388,943,879
NET OPERATING REVENUE (LOSS) (Notes 1b, 8 and 12)	1,295,893	(917,258)
INVESTED CAPITAL - NON-INTEREST-BEARING:		
Unrecovered costs for fiscal year 1981 (recovered) deferred (Notes 1b and 8)	(917,258)	917,258
Net revenue payable to Government of Panama (Note 12)	(378,635)	-
Investment at beginning of fiscal year	249,101,935	236,530,780
Miscellaneous receipts deposited into the U.S. Treasury	368,145	1,661,600
Due U.S. Treasury for undeposited receipts	(576,536)	(368,145)
Plant reactivations	493,940	23,581
Interest on investment	9,123,826	11,254,119
INVESTED CAPITAL - NON-INTEREST-BEARING AT END OF FISCAL YEAR	$258,511,310	$249,101,935

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Changes in the Investment of the United States Government
Fiscal Year Ended September 30, 1982

	Invested Capital					
	Interest-Bearing	Non-Interest-Bearing	Emergency Fund	Operating Funds	Capital Funds	Total
INVESTMENT AT OCTOBER 1, 1981...............	$128,419,111	$249,101,935	$10,000,000	$ 59,433,349	$ 25,475,158	$ 472,429,553
Appropriation by the Congress for fiscal year 1982..............................	-	-	-	400,754,000	19,766,000	420,520,000
	128,419,111	249,101,935	10,000,000	460,187,349	45,241,158	892,949,553
INCREASES IN INVESTMENT:						
Plant reactivations......................	-	493,940	-	-	-	493,940
Prior year receipts deposited into the U.S. Treasury...........................	-	368,145	-	-	-	368,145
Expenditures from capital appropriations..	23,817,043	-	-	-	(23,817,043)	-
Expenditures from operating appropriations	379,957,490	-	-	(379,957,490)	-	-
Interest on investment...................	-	9,123,826	-	-	-	9,123,826
Property transferred from other U.S. Government agencies......................	72,421	-	-	-	-	72,421
Net revenue (Notes 1b and 8)..............	-	378,635	-	-	-	378,635
	403,846,954	10,364,546	-	(379,957,490)	(23,817,043)	10,436,967
DECREASES IN INVESTMENT:						
Funds to be covered into the U.S. Treasury	-	-	-	5,789,846	-	5,789,846
Tolls and other receipts deposited by the Panama Canal Commission.................	440,139,216	-	-	-	-	440,139,216
Due U.S. Treasury for undeposited receipts	-	576,536	-	-	-	576,536
Property transferred to the Government of Panama..............................	1,790,580	-	-	-	-	1,790,580
Property transferred to other U.S. Government agencies.....................	572,924	-	-	-	-	572,924
Net revenue payable to the Government of Panama (Notes 1b, 8 and 12)..............	-	378,635	-	-	-	378,635
	442,502,720	955,171	-	5,789,846	-	449,247,737
INVESTMENT AT SEPTEMBER 30, 1982 (Note 9)...	$ 89,763,345	$258,511,310	$10,000,000	$ 74,440,013	$ 21,424,115	$ 454,138,783

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Changes in the Investment of the United States Government
Fiscal Year Ended September 30, 1981

	Invested Capital					
	Interest-Bearing	Non-Interest-Bearing	Emergency Fund	Operating Funds	Capital Funds	Total
INVESTMENT AT OCTOBER 1, 1980...............	$148,246,061	$236,530,780	$ -	$ 76,894,964	$ 20,186,122	$ 481,857,927
Restoration of fiscal year 1980 funds.....	-	-	-	4,892,198	-	4,892,198
Appropriation by the Congress for fiscal year 1981................................	-	-	10,000,000	373,050,000	31,560,000	414,610,000
Appropriation by the Congress for fiscal year 1981 for repayment to the General Fund of the U.S. Treasury for the FY 1980 appropriation..................	-	-	-	350,000,000	-	350,000,000
	148,246,061	236,530,780	10,000,000	804,837,162	51,746,122	1,251,360,125
INCREASES IN INVESTMENT:						
Plant reactivations.......................	-	23,581	-	-	-	23,581
Prior year receipts deposited into the U.S. Treasury............................	-	1,661,600	-	-	-	1,661,600
Expenditures from capital appropriations..	26,270,964	-	-	-	(26,270,964)	-
Expenditures from operating appropriations	363,891,567	-	-	(363,891,567)	-	-
Expenditures from operating appropriations for repayment to the General Fund of the U.S. Treasury for the FY 1980 appropriation....................	350,000,000	-	-	(350,000,000)	-	-
Funds covered into the U.S. Treasury......	(350,000,000)	-	-	-	-	(350,000,000)
Interest on investment..................	-	11,254,119	-	-	-	11,254,119
Property transferred from other U.S. Government agencies......................	746,778	-	-	-	-	746,778
Unrecovered costs transferred to other assets (Notes 1b and 8).................	-	917,258	-	-	-	917,258
	390,909,309	13,856,558	-	(713,891,567)	(26,270,964)	(335,396,664)
DECREASES IN INVESTMENT:						
Funds to be covered into the U.S. Treasury	-	-	-	31,512,246	-	31,512,246
Tolls and other receipts deposited by the Panama Canal Commission.................	409,686,794	-	-	-	-	409,686,794
Due U.S. Treasury for undeposited receipts	-	368,145	-	-	-	368,145
Property transferred to the Government of Panama...............................	697,282	-	-	-	-	697,282
Property transferred to other U.S. Government agencies......................	352,183	-	-	-	-	352,183
Net loss (Notes 1b and 8)................	-	917,258	-	-	-	917,258
	410,736,259	1,285,403	-	31,512,246	-	443,533,908
INVESTMENT AT SEPTEMBER 30, 1981 (Note 9)...	$128,419,111	$249,101,935	$10,000,000	$ 59,433,349	$ 25,475,158	$ 472,429,553

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Changes in Financial Position
Fiscal Years Ended September 30, 1982 and 1981

	1982	1981
SOURCE OF FUNDS:		
From Operations:		
Revenue	$431,984,464	$388,026,621
Less operating expenses:		
Interest on interest-bearing investment	9,123,826	11,254,119
Payments to the Government of Panama (Note 12).	81,193,887	76,862,970
Other expenses	340,370,858	300,826,790
Total operating expenses	430,688,571	388,943,879
Net operating revenue (loss)(Notes 1b, 8 and 12).	1,295,893	(917,258)
Unrecovered costs for fiscal year 1981 (recovered) deferred (Notes 1b and 8)	(917,258)	917,258
Net revenue payable to Government of Panama (Notes 1b, 8 and 12)	(378,635)	-
Add transactions not requiring outlay of funds:		
Depreciation (Note 1e)	18,754,070	17,813,844
Amortization and adjustment of deferred items..	204,106	251,607
Provision for lock overhauls (Note 1i)	3,544,000	3,093,000
Provision for casualty losses (Note 1j)	12,200,000	12,200,000
Interest on interest-bearing investment	9,123,826	11,254,119
Other (Note 6b)	6,249,901	326,901
Total source of funds	50,075,903	44,939,471
APPLICATION OF FUNDS:		
Lock overhauls expenditures	3,214,853	156,466
Casualty losses	12,288,023	5,379,383
Accrued capital expenditures	24,903,322	25,565,636
Reduction in investment of the U. S. Government	38,370,217	18,509,914
Total application of funds	78,776,415	49,611,399
INCREASE (DECREASE) IN WORKING CAPITAL	$(28,700,512)	$ (4,671,928)
ANALYSIS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$ 26,439	$ (1,474,849)
Receivables	(1,665,437)	(14,635,204)
Inventories	(5,703,715)	14,541,037
Other	(156,336)	(1,150,006)
	(7,499,049)	(2,719,022)
Decrease (increase) in current liabilites:		
Accounts payable	(4,658,980)	(3,991,623)
Accrued liabilities (Note 6b)	(3,587,824)	18,398,775
Other	(12,954,659)	(16,360,058)
	(21,201,463)	(1,952,906)
INCREASE (DECREASE) IN WORKING CAPITAL	$(28,700,512)	$ (4,671,928)

The accompanying notes are an integral part of statement.

PANAMA CANAL COMMISSION
Statement of Status of Appropriations
Fiscal Years Ended September 30, 1982 and 1981

	1982	1981
SOURCE OF APPROPRIATIONS:		
Operating funds:		
Current year operating appropriation................	$400,754,000	$373,050,000
Obligated operating funds brought forward...........	59,433,349	76,894,964
Appropriation for repayment to the General Fund of the U.S. Treasury for the fiscal year 1980 appropriation....................................	-	350,000,000
Restoration of fiscal year 1980 operating appropriation....................................	-	4,892,198
	460,187,349	804,837,162
Capital funds:		
Current year capital appropriation (no year).........	19,766,000	31,560,000
Obligated capital funds brought forward.............	17,371,012	16,630,877
Unobligated capital funds (no year) brought forward..	8,104,146	3,555,245
	45,241,158	51,746,122
Emergency fund (no year)............................	10,000,000	10,000,000
TOTAL SOURCE OF APPROPRIATIONS........................	$515,428,507	$866,583,284
APPLICATION OF APPROPRIATIONS:		
Operating funds:		
Expenditures from operating appropriations...........	$379,957,490	$363,891,567
Expenditures from operating appropriations for repayment to the General Fund of the U.S. Treasury for the fiscal year 1980 appropriation.....	-	350,000,000
Obligated operating funds...........................	74,440,013	59,433,349
Unobligated operating funds lapsed..................	5,789,846	31,512,246
	460,187,349	804,837,162
Capital Funds:		
Expenditures from capital appropriations:		
Fiscal year 1980..................................	4,492,971	14,734,646
Fiscal year 1981..................................	14,559,299	11,536,318
Fiscal year 1982..................................	4,764,773	-
Obligated capital funds:		
Fiscal year 1980..................................	358,549	4,162,768
Fiscal year 1981..................................	4,618,448	13,208,244
Fiscal year 1982..................................	10,728,673	-
Unobligated capital funds (no year):		
Fiscal year 1980..................................	599,957	1,288,708
Fiscal year 1981..................................	845,934	6,815,438
Fiscal year 1982..................................	4,272,554	-
	45,241,158	51,746,122
Unobligated emergency fund (no year)................	10,000,000	10,000,000
TOTAL APPLICATION OF APPROPRIATIONS..................	$515,428,507	$866,583,284

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION
Statement of Property, Plant and Equipment
September 30, 1982 and 1981

	1982		1981	
	Cost	Depreciation and valuation allowances	Cost	Depreciation and valuation allowances
Titles and treaty rights..................	$ 14,728,889	$ 3,406,056	$ 14,728,889	$ 3,037,834
Interest during construction..............	50,892,311	50,892,311	50,892,311	50,892,311
Canal excavation, fills and embankments...	336,893,372	74,355,710	336,893,372	65,741,687
Canal structures and equipment............	226,696,154	109,506,598	225,745,671	124,624,285
Supporting and general facilities.........	157,669,770	95,231,887	165,001,294	101,403,024
Minor items of plant and equipment........	10,629,593	10,629,593	11,577,140	11,577,140
Facilities held for future use............	3,166,947	2,508,355	3,951,758	3,193,511
Plant additions in progress...............	12,491,475	-	17,995,749	-
Suspended construction projects...........	40,145,798	40,145,798	40,145,798	40,145,798
TOTAL.....................................	$853,314,309	$386,676,308	$866,931,982	$400,615,590

The accompanying notes are an integral part of this statement.

PANAMA CANAL COMMISSION

Notes to Financial Statements

1. Summary of Significant Accounting Policies.

The Comptroller General of the United States approved the Accounting Principles and Standards Statement of the Panama Canal Commission in his letter dated September 14, 1982. A summary of significant accounting policies follows:

a. Accounting and reporting. As required by section 1311(a) of the Panama Canal Act of 1979, hereinafter referred to as the Act, the accounts of the Commission are maintained pursuant to the Accounting and Auditing Act of 1950. This requires that the principles, standards and related requirements for accounting be met, as prescribed by the Comptroller General of the United States, after consulting with the Secretary of the Treasury and the Director of the Office of Management and Budget concerning their accounting, financial reporting and budgetary needs. The Accounting and Auditing Act of 1950 also requires that the accounts be maintained on an accrual basis.

b. Cost recovery. As required in section 1341(e)(1) of the Act, the application of generally accepted accounting principles to the Panama Canal Commission, a United States Government agency comparable to a rate-regulated public utility, determines the manner in which costs are recognized. The basis for tolls 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 subsequent revenues. The amount for recovery from subsequent revenues is transferred from Invested Capital to an account within the Other Assets classification. Unrecovered costs are charged back to Invested Capital to the extent subsequent annual revenues exceed annual costs.

c. Property, plant and equipment. Property, plant and equipment are recorded at 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 related general expenses are recovered currently and therefore not capitalized. The cost of minor items of property, plant and equipment is charged to expense as incurred.

d. Advances for capital. A portion of tolls in excess of depreciation recoveries may be programmed annually by the Board of Directors for plant replacement, expansion, or improvements. Such funds are considered capital advances from Canal users. Upon utilization, these advances are amortized through an offset to depreciation expense in an amount calculated to approximate the depreciation on assets acquired with such advances.

e. Depreciation. Depreciation is provided using a straight-line method with additional annual depreciation, identified as composite, to provide for premature plant retirements.

f. 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 are recorded as revenue. The allowance for doubtful accounts which appears on the Commission books is applicable only to the receivables of predecessor agencies.

g. 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 has been established to reflect the estimated cost of obsolete and excess stock.

h. Retirement benefits. Employer payments to the contributory United States Civil Service Retirement System and 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 United States Civil Service Retirement System but do receive benefits under a separate annuity plan. 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 Act, the Panama Canal Commission is liable for the increase in the unfunded liability of the United States 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.

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

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

k. Housing use rights. No monetary value is assigned to the rights granted to the United States Government by the Republic of Panama to use Canal Area housing transferred to the Republic of Panama under the terms of the Panama Canal Treaty of 1977. The cost to manage, maintain and provide livability improvements to these quarters is charged to expense. Rental income is included in other revenues.

1. Dredging costs. The recurring costs of dredging the waterway are charged to expense. Non-recurring dredging costs for substantial improvements and betterments to the waterway are considered additions to plant and are capitalized and depreciated over their estimated service lives.

2. Plant Valuation Allowances.

At July 1, 1951, certain valuation allowances for property, plant and equipment 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 transferred from the Panama Canal Company and the Canal Zone Government to the Panama Canal Commission were carried forward. At September 30, 1982 and at September 30, 1981, these valuation allowances amounted to $99.3 million and $116.6 million, respectively, comprised of: (a) $5.6 million and $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 Canal construction period; and (c) $42.8 million and $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 non-interest-bearing investment of the United States Government in proportion to the value to the Commission of the reactivated asset.

3. 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 2.49% for fiscal year 1982 and 2.41% for fiscal year 1981.

4. Fund Balances and Cash.

The fund balance and cash are composed of the following:

	Million of Dollars
Operating and capital fund	$ 95.8
Emergency fund	10.0
Postal Fund	0.2
Trust fund	1.6
Fund balances and cash	$107.6

The fund balances and cash of $107,624,370 are made up of $104,375,796 on deposit in the United States Treasury, $2,021,770 on deposit in commercial banks, and $1,226,804 on hand. Of the total, $105,864,128 is comprised of current budgetary accounts which include appropriated funds for operations, capital and the emergency fund.

The emergency fund represents the amount on deposit in the United States Treasury which is to be used "... to defray emergency expenditures and to insure the continuous efficient and safe operation of the Panama Canal when funds appropriated for the operation and maintenance of the Canal prove insufficient for such purposes...."

The postal fund consists of outstanding money orders, postal savings and interest accrued thereon. This fund will remain available until liquidated. The trust fund primarily includes deposits made by customers for future tolls, other service payments, and undeposited receipts.

5. Panama Canal Commission Fund.

The Panama Canal Commission Fund as established by the Panama Canal Act of 1979 (Public Law No.96-70) is made up of receipts deposited in the United States Treasury less appropriation warrants issued during the fiscal year. The balance in this account, $143.9 million as of September 30, 1982, is available for future appropriations.

Section 1302 of the Panama Canal Act of 1979 (Public Law No. 96-70) provides that all appropriations necessary to operate the Panama Canal shall be issued from the Panama Canal Commission Fund. The appropriations for fiscal year 1980 were issued to the Commission from the General Fund of the United States Treasury. The status of the amount still owed to the General Fund of the United States Treasury for fiscal year 1980 is as follows:

	Million of Dollars	
Operating Appropriation	$ 427.2	
Capital Appropriation	36.6	$ 463.8
Returned to General Fund (9/80)	$ (17.9)	
Withdrawn from General Fund (12/80)	4.9	
Repaid to General Fund (7/81)	(350.0)	
Returned to General Fund (9/81)	(15.1)	
Returned to General Fund (9/82)	(.1)	(378.2)
Amount owed General Fund of U.S. Treasury as of September 30, 1982		$ 85.6

6. Accounting Changes.

The financial statements reflect various changes as follows:

a. "Unobligated operating funds to be returned to the U.S. Treasury" has been deleted. This change has no impact on the financial position or the operating results of the Commission.

b. The cost of early retirement provisions of the Panama Canal Act of 1979 has been added to the balance sheet as a liability of the Commission for future payments to the United States Civil Service Retirement Fund and an equal amount is recorded as a Deferred Charge. This change has no impact on the financial position or operating results of the Commission.

c. Effective with fiscal year 1982, there was a change in the method of applying the accounting policy for dredging costs. The effect of this change was to increase expense and reduce the capital advance requirement. The precise dollar magnitude of this change cannot be measured since these amounts were not isolated in the Commission's operating accounts. However, the change did not have any impact on net operating revenue.

7. Other Receivables.

Other receivables represent services provided in connection with ship accidents for which the vessel is considered to be responsible awaiting final settlement. This amount is also included in the computation of estimated liabilities established for ship accident claims.

8. Unrecovered Costs Due from Subsequent Revenues.

Pursuant to the provisions of Section 1341(e) and Section 1602(b) of the Panama Canal Act of 1979 (Public Law No. 96-70) the net loss of $0.9 million from fiscal year 1981 operations was recovered from fiscal year 1982 operating revenue.

9. Interest-Bearing Investment of the United States Government.

The interest-bearing investment of the United States Government in the Panama Canal is determined based on section 1603(a) of the Panama Canal Act of 1979. The interest-bearing investment of the United States Government at September 30, 1982 was determined as follows:

	Millions of Dollars	
Investment at September 30, 1981		$ 128.4
Fiscal year 1982 transactions:		
Disbursements	$ 403.8	
Receipts	(440.1)	
Net property transfers	(2.3)	
Net change		(38.6)
Investment at September 30, 1982		$ 89.8

10. Accounts Payable - United States Government Agencies.

Included in the accounts payable to United States Government agencies are ship accident and other claims in the amount of $19.1 million that were forwarded to the Department of Justice in Washington, D. C. after reaching a settlement or receiving a judgment for approval for payment.

11. Ship Accident Claims.

Liabilities arising from ship accident claims 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 locks after September 30, 1979.

c. Accidents which occurred outside the locks after September 30, 1979, for which the claim or estimated liability 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 requires specific Congressional approval. Hearings covering the initial three claims are underway in Congress. Until Congressional action is completed, liabilities for these accidents are booked as non-fund.

12. Payments to the Government of Panama.

Based on Article III and Article XIII of the Treaty, the Government of Panama has received payment for public services, fixed annuity and thirty cents per Panama Canal net ton. In addition to these payments, net revenue in the amount of $0.4 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 operating revenue to the extent that such revenues exceed expenditures of the Commission. This amount is subject to the limitations set forth in section 1341(e) of the Panama Canal Act of 1979 (Public Law No. 96-70).

13. Advances for Capital - Transit Booking System Revenues.

During fiscal year 1982, with approval of the Board of Directors, the Commission tested a system whereby shippers, for a fee, could make an advance reservation for vessel transit. The test continued for approximately four months generating revenues of $5.9 million. By direction of the Board of Directors, these revenues were set aside for capital improvements. Such funds are considered capital advances from Canal users.

14. Reserve for Casualty Losses.

The reserve for casualty losses at September 30, 1982 of $9.1 million includes $8.8 million for marine accidents and $0.3 million for other casualty losses. The monthly accrual for the reserve for marine accidents in fiscal year 1982 was $1.0 million per month for a total of $12.0 million.

15. Extraordinary Retirements.

The retirement of SIP-7 Emergency Gates and Miter Gate Latching Devices was approved at the March 1982 meeting of the Board of Directors. The retirement of these systems was recommended by the United States Army

Corp of Engineers and reviewed by selected specialists of the Panamanian Society of Engineers and Architects at the request of the Panamanian Board members. The specialists also recommended the elimination of these systems. The net amount charged to operations was $2.6 million.

16. Contingent Liabilities and Commitments.

In addition to recorded liabilities, the estimated maximum contingent liability which could result from pending claims and lawsuits was $10.9 million at September 30, 1982. 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 $36.4 million at September 30, 1982. Of this amount, $0.1 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 held by United States depositories designated by the Panama Canal Commission at September 30, 1982 to guarantee payment by third parties of their obligations.

The Panama Canal Treaty of 1977, Article XIII, paragraph 4(c), provides that an annual amount of up to $10 million per year be paid to the Government of Panama out of operating revenue to the extent that such revenues exceed expenditures. Payment to the Government of Panama is subject to the limitations set forth in section 1341(e) of the Panama Canal Act of 1979 (Public Law No. 96-70) In the event operating revenues in any year do not produce a surplus sufficient to cover this payment, the unpaid balance shall be paid from operating surpluses in future years up to the amount available from these surpluses. As of September 30, 1982, the balance contingently payable to the Government of Panama amounts to $26.9 million.

The long-range financial impact of the Panama Canal Treaty of 1977 is not considered in the financial statements of the Commission.

PANAMA CANAL COMMISSION

OFFICE OF THE ADMINISTRATOR

BALBOA
REPUBLIC OF PANAMA

U.S. MAILING ADDRESS
APO MIAMI 34011

APR 8 1983

Mr. Thomas R. Brogan, Director
Latin America Branch
International Division
U.S. General Accounting Office
c/o American Embassy
Box E
APO Miami 34002

Dear Mr. Brogan:

We have reviewed the GAO draft report entitled "Examination of Financial Statements Of The Panama Canal Commission For The Years Ended September 30, 1982 and 1981." The following comments address certain aspects of the draft report. The Commission requests that these comments, and the enclosures thereto, be included as an attachment to the final report.

Investment of the United States. Pages 1, 2, and 3 of the draft report discuss GAO's continuing uncertainty regarding the method of computing the U.S. investment on which interest is calculated, i.e., whether interest is computed on total investment or on net direct investment. The draft report states that the "* * * Commission believes its approach is consistent with the Act." However, the evidence in support of the Commission's position is not presented.

The full text of that position, contained in letters to the Director of OMB on January 14, 1983 and to GAO on February 2, 1983, is germane to this issue and should be available to all report addressees. Rather than restating the Commission's position, copies of these letters are attached as integral parts of the comments on the draft report. As pointed out in the enclosed letters, the Commission maintains that it has correctly interpreted the Panama Canal Act of 1979 and applied it in a manner that comports with the intent of the Congress. The Joint Explanatory Statement of The Committee of Conference (Conference Report 96-473) specified that interest shall be computed on the "net direct interest-bearing-investment." The conferees adopted the provision of House Report 96-98 which stipulated that "***the base on which interest is calculated will be the same as that established by present law for the Panama Canal Company (2 CZ Code 62)***." Section 62 of the Canal Zone Code provided a specific statutory formula for determining the "net direct investment" listing the elements to be interest-bearing or non-interest-bearing. Additionally, Senate Reservation 6 to the Treaty provided that "* * * the phrase 'funds or other assets directly invested' shall have the same meaning as the phrase 'net direct investment' has under section 62 of title 2 of the Canal Zone Code."

In summary, the Commission established the investment base in compliance with Section 1603 of the Act recognizing the intent of Congress specified in the legislative history of the Act and Senate Reservation 6 to the Treaty.

GAO comment:

We believe that the terms "net direct investment," "interest-bearing," and "non-interest-bearing" were models that were available to the drafters of the Act. The Congress chose not to use any of these terms, each of which defined a specific portion of the U.S. investment in the Panama Canal Company. Instead, the Act states that the return is to be computed "* * * on the investment of the United States in the Panama Canal * * *" (our emphasis). The investment of the United States is a larger amount than the amounts defined by such terms as "net direct investment," "interest-bearing investment," or "non-interest-bearing investment." Money can be appropriated to the Canal organization and invested in Canal improvements or money from earnings can be retained and then invested in Canal improvements. Improvements acquired under either method enhance Canal operations, and it is proper for the U.S. Government to expect a return on any such investment.

Capitalization Policy. Pages 1 and 3 of the draft report discuss GAO's uncertainty as to whether the Commission has properly applied capitalization policies. The Commission holds that its capitalization policies have been properly applied. The accounting treatment of certain projects questioned by GAO was discussed in detail and supporting rationale for the Commission's position was furnished in each instance. The Commission will be pleased to provide any additional information needed by GAO in its further study of this matter.

GAO comment:

Commission accounting policy, approved by GAO, provides in part that non-recurring costs for substantial improvement and betterment to the waterway should be capitalized and depreciated over their estimated service lives. The Commission expensed three projects which we consider to have resulted in major betterments to the waterway.

The projects in question provided long-term improvements because they widened and straightened the Canal; removed a one-way traffic restriction; and improved Canal pilots' line-of-sight for safer operations.

Effect of Uncertainties. At the bottom of page 1, GAO gives the combined effect of the two uncertainties on the Commission's financial statements. Because of the complexity of the issues, it is unclear to the Commission how GAO determined this combined effect. For example, the Commission does not see how either uncertainty affects the investment of the United States. GAO should clarify how the effect of each uncertainty was derived.

Mr. Thomas R. Brogan, Director APR 8, 1983

GAO comment:

At the close of our review, we discussed our calculations on this issue with Commission officials at some length. We provided and explained our analysis as to how we used the total U.S. investment, making adjustments for prior years, to reflect the true investment for fiscal year 1982.

To arrive at the effect of the uncertainty pertaining to computation of the return on U.S. investment, we calculated the U.S. return on the total investment rather than the partial investment as done by the Commission. Our analysis, which was quite detailed in that we had to identify and restructure a number of transactions for 1982 and prior years, was, as noted above, provided to the Commission in detail at the end of our review. Likewise, our concerns pertaining to the Commission's application of capitalization policy, which is interrelated to the investment issue, were also discussed in detail with Commission officials.

Morale, Welfare, and Recreation Program. On page 5 of the draft report, GAO states "* * * we found (1) the Commission had no specific legislative authority for such a program, and (2) the Commission did not disclose fully the cost and extent of its program." With respect to finding (1), please be advised that the Panama Canal Treaty of 1977 and Related Agreements provide the Commission with specific legal authority to conduct its morale, welfare, and recreation program. Paragraph 11 of the Agreed Minute to the Agreement in Implementation of Article III of the Panama Canal Treaty provides that the agency "* * * may continue to operate and maintain noncommercial recreation and community service areas and facilities for the benefit of all occupants of the housing areas and all employees of the Commission, and their dependents." Additionally, the Commission considers such expenditures to be authorized by necessary implication in enactment by the Congress of the annual appropriation to the Commission which includes funds for the program based on budget justifications and related documentation. With respect to finding (2), it is assumed that this relates to the recreational launch BLUE RUNNER whose costs were included in the budget under the activity responsible for its operation and maintenance, rather than being shown and identified as a recreational expense. Because of GAO's concern in this area, the Commission's fiscal year 1984 budget submission to the Congress has the launch operation identified as part of the recreation program.

GAO comment:

We deleted a discussion of this issue from our report on compliance with laws and regulations.

Mr. Thomas R. Brogan, Director APR 8 1983

Location of Internal Audit Function. The draft report on page 7 and 8 reiterates GAO's observation on the organizational location of the Commission's internal audit function. The Commission does not see any reason for a change in location of this function. The internal audit staff has traditionally been carried administratively as part of the Office of Financial Management, and yet has always exercised complete independence in the selection and scheduling of audits and the development of audit findings. The reporting by the General Auditor of findings and recommendations is made directly to the head of the agency. Likewise, actions taken on recommendations must also be reported back to the agency head by the parties concerned. These reporting procedures conform to basic GAO standards for internal audit groups and ensure the complete autonomy and independence of the internal audit function within the Commission. This arrangement is also in compliance with OMB guidance in this regard (OMB Circular A-73). The work performed by the internal audit staff has served to greatly facilitate GAO's annual audit of the Commission while providing excellent internal audit work on an unbiased, self-regulated basis.

GAO comment:

Generally accepted government auditing standards state that it is important that auditors be independent in forming their opinions, conclusions, judgments, and recommendations and that their situations lead third parties to believe they are independent and impartial. Accordingly, the standards provide that internal auditors should report to the head or deputy head of the government entity and should be organizationally located outside the staff or line management function of the unit under audit. The Commission's General Auditor reports to the Chief Financial Officer, and the Chief Financial Officer provides performance ratings and evaluations for the General Auditor. Therefore, the current organizational location of internal audit could lead third parties to question whether internal audits are independent and impartial.

Other Matters. In addition to the points discussed above, GAO may wish to consider the following comments: 1/

1st page, 1st paragraph, 4th line. The words "changes in financial position; status of appropriations;" were omitted from the scope paragraph.

1st page, 2d paragraph. This paragraph is misleading since it seems to imply that none of the Commission's accounting practices comply with generally accepted accounting principles. This is not the case since the Commission maintains its accounts pursuant to the Accounting and Auditing Act of 1950. This requires that the Commission follow the principles, standards and related requirements for accounting as prescribed by the Comptroller General and that the accounts be maintained on an accrual basis. The Panama Canal Act of 1979 requires that operating expenses be determined in accordance with generally accepted accounting principles. The Commission suggests that the draft report be revised to explain that in addition to the requirements of the Accounting and Auditing Act of 1950 and generally accepted accounting principles, the Panama Canal Act of 1979 also requires the Commission to follow certain other accounting practices which differ, in some respects, from generally accepted accounting principles.

1/ These comments have been considered in the report and revisions were made where appropriate.

Mr. Thomas R. Brogan, Director

APR 8 1983

2d page, last paragraph. By law, only the U.S. investment in the Panama Canal Company was required to be accounted for as interest-bearing and non-interest-bearing.

4th page, 2d paragraph. Since the Commission, with GAO's concurrence, has dropped supplementary price-level statements, all references to these statements should be deleted from this paragraph.

Thank you for providing us the opportunity to comment on the draft report before its publication. The Commission appreciates your efforts to have the report published at the earliest possible date.

Sincerely yours,

D. P. McAuliffe
Administrator

Enclosures

26142

AN EQUAL OPPORTUNITY EMPLOYER

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

OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE,$300

POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE

U.S.MAIL

THIRD CLASS