



UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
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SEATTLE, WASHINGTON 98109

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MAR 9 1977

Mr Donald P Hodel, Administrator
Bonneville Power Administration 465
P.O. Box 3621
Portland, Oregon 97208

Dear Mr Hodel

2 We have completed our audit of the Federal Columbia River Power System (FCRPS) financial statements for the fiscal year ended June 30, 1976. Our review included an examination of the Bonneville Power Administration (BPA) accounting records and procedures as a basis for evaluating the reasonableness and propriety of BPA's financial statements. D73

We are pleased to report that the financial procedures and controls are generally satisfactory. Although we discussed and resolved a number of matters with your staff during our review, we would like to bring the following items to your attention.

RETURNABLE REELS

When BPA purchases wire for transmission lines, a deposit is made for the reels on which the wire is wound. The deposit, refunded to BPA if the reels are returned within the time stipulated in the purchase agreement, is recorded in the Returnable Reel account.

Our letter to the Administrator dated January 23, 1976, stated our concurrence with a recommendation made by the Office of Audit and Investigation that BPA reduce its Returnable Reel account balance by establishing an appropriate account for those reels that are no longer returnable for refunds. The Returnable Reel account at June 30, 1976, included about \$282,000 of forfeited deposits.

A BPA memorandum dated August 20, 1976, revised the accounting procedures for nonreturnable reels for fiscal year 1976 and subsequent fiscal years to identify those deposits that have been forfeited. We agree with these revisions and believe that proper accounting of nonreturnable reels will now be achieved.

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NONUNITIZED PLANT COSTS

The Plant Accounting Section has responsibility for establishing and maintaining a perpetual inventory of BPA's fixed assets, by individual units of property. To fulfill this responsibility, Plant Accounting allocates the estimated plant costs to subsidiary asset accounts. Later, work orders are analyzed and the previous estimates are adjusted to reflect a more accurate allocation of actual plant costs. This analysis results in actual plant costs being assigned to individual property units. Unitized plant cost information is used when determining the value of BPA property to be leased, sold, or retired.

Our letter to the Administrator dated January 23, 1976, stated that BPA's use of the computer to assist in the unitization of plant costs, precoding of unitization data, and unitizing costs based on larger units reduced the nonunitized balance by \$5.7 million during fiscal year 1975. In fiscal year 1976, however, the nonunitized balance increased by approximately \$13 million to a total nonunitized balance of about \$39.7 million.

Officials from the Plant Accounting Section told us that even though the nonunitized balance has increased, progress has been made in establishing procedures for reducing this balance. Improvements include automating the analysis system to reduce required staff time and revising the investment analysis program to eliminate some of the analysis process. As a result of these improvements, about \$10 million more in estimated plant costs were unitized during fiscal year 1976 than during fiscal year 1975.

OUTDATED PURCHASE ORDERS

Our letter to the Administrator dated January 23, 1976, mentioned that during the fiscal year 1975 audit internal control weaknesses were found involving outdated purchase orders for rent and utility payments in the General Voucher Unit of the Disbursement Audit Section. BPA's March 1, 1976, reply stated that action would be taken to update, reissue, or supersede these outdated purchase orders during fiscal year 1976.

During our fiscal year 1976 review, an official in the Branch of Materials and Procurement told us that as of January 1977 about 70 percent of the outdated purchase orders for rent and utility payments had been updated. He also said that although a timeframe has not been established for updating the remaining purchase orders and the responsibility for this type of procurement activity is being assigned to another

unit, a coordinated plan will be developed. We believe that such a plan, including a specific timeframe for completing the work, is necessary so that this internal control weakness can be eliminated as early as possible.

NONALLOCATED COSTS

The undistributed costs in BPA's clearing accounts at June 30, 1976, totaled about \$1.6 million. BPA's Accounting Principles and Standards state that these accounts should be maintained at a near zero balance.

The large balance of undistributed costs was due to the activity in the Washougal Material Yard group of clearing accounts. These accounts accumulate the indirect costs associated with steel purchases for BPA's construction program for distribution to individual construction work orders. Unlike the other clearing accounts where costs are distributed annually, the costs recorded in this group of accounts are distributed over a 3-year cycle in order to assign costs equally to the benefiting projects. Therefore, the Washougal Material Yard accounts may have a substantial balance at the end of any one fiscal year.

Following our discussion of these undistributed amounts, an adjusting entry was made for \$1,619,579 on the Statement of Assets and Liabilities to reduce "Other Assets and Deferred Charges" and increase "Construction Work in Progress."

PRIOR YEAR ADJUSTMENT

An official from the Branch of Finance and Accounts told us that prior to the Federal Columbia River Transmission System Act of 1974, Office of Management and Budget (OMB) regulations stipulated that BPA could take up to 2 years to make employee compensation payments to the Department of Labor. He further stated that since passage of the act, the self-financing regulations imposed by OMB require BPA to make these payments in the subsequent fiscal year in which the cost accrues.

Subsequently, it was necessary for BPA to make an employee compensation payment in fiscal year 1976 for fiscal years 1974 and 1975. Based upon our recommendation, an official from the Branch of Finance and Accounts agreed that the fiscal year 1974 payment should not have been charged to fiscal year 1976 operations but to Prior Years' Adjustments. Consequently, an FCRPS statement only adjustment for \$364,566 was made.

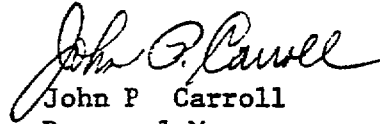
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A copy of this letter is being sent to the Director, Office of Audit and Investigations, Department of the Interior.

We wish to acknowledge the courtesy and cooperation given our representatives during this review. We especially appreciate the assistance given us by the Branch of Land.

Receipt of your comments and advice on the matters discussed above would be appreciated.

Sincerely yours,


John P. Carroll
Regional Manager