

DOCUMENT RESUME

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Report to Robert J. Cross, Administrator, Alaska Power Administration; by John P. Carroll, Regional Manager, Field Operations Div.: Regional Office (Seattle).

Issue Area: Accounting and Financial Reporting (2800).  
Contact: Field Operations Div.: Regional Office (Seattle).  
Budget Function: Miscellaneous: Financial Management and Information Systems (1002).  
Authority: Water Resources Development Act of 1976 (P.L. 95-587).

Financial statements including accounting records and procedures of the Alaska Power Administration (APA) were reviewed for fiscal years 1974 and 1975. Findings/Conclusions: The financial procedures and controls were generally satisfactory, but some weaknesses were found in internal control and in accounting procedures. Internal control weaknesses were found in power billings, property purchases, and payroll. The power-meter readings record was not initialed by the employer who recorded the readings. Procurement and receiving duties, performed by one person, could reasonably be separated. Time and attendance cost codes were not recorded for all studies. Adequate inventory control did not exist at the time of review for Snettisham and other APA property. Overhead costs for Snettisham and Eklutna projects were based on budgetary estimates and not actual charges, resulting in understated overhead charges in 1976 and prior years. Payroll cost codes were not always established on time. For calculating the Snettisham project's electric plant depreciation expense, a composite life must be determined and adjustments made to 1976 depreciation expenses. Various material changes were required to each project's financial statements. Recommendations: Procurement and receiving duties should be separated so that another person can witness purchase orders and verify receipt of items. A complete inventory of Snettisham project and General Investigation property should be taken, and identification numbers should be affixed to all movable property; a decision should be made as to what is surplus or transferrable; and items costing less than \$300 should be removed from accounting records. APA should periodically review overhead charges allocated to power projects. (DJM)

UNITED STATES GENERAL ACCOUNTING OFFICE

REGIONAL OFFICE

ROOM 201, 411 FIRST AVENUE NORTH  
SEATTLE, WASHINGTON 98109

MAY 26 1977

Mr. Robert J. Cross, Administrator  
Alaska Power Administration  
P.O. Box 50  
Juneau, Alaska 99802

Dear Mr. Cross:

We have completed our review of the Alaska Power Administration (APA) Federal power program financial statements for the fiscal years ended June 30, 1975, and June 30, 1976. Our review included an examination of the APA accounting records and procedures which served as a basis for evaluating the reasonableness and propriety of APA's Federal power program financial statements.

We are pleased to report that financial procedures and controls were generally satisfactory. Minor matters noted during our review were discussed and resolved with your staff and are not described in this letter. However, we would like to bring the following items to your attention.

INTERNAL CONTROL WEAKNESSES

Internal control weaknesses were found involving power billings, property purchases, and payroll.

1. The power meter reading record which is the source document for calculating power billings is not initialed by the APA employee who records the readings.

2. In some cases, property procurement and receiving is performed by the same APA employee. Because of APA's small size, it is practical and reasonable to assign the primary responsibility for these functions to one individual. However, separation of procurement and receiving duties should be accomplished by having another employee witness and approve purchase orders and verify that the items were received.

3. "Time and Attendance" reports in APA's Projects Development Division do not reflect the actual time spent on certain projects because cost codes were not assigned for all studies. This has resulted in incorrect costing of expenses to General Investigation studies which could become reimbursable if the project is subsequently authorized.

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These internal control weaknesses were discussed with APA officials and action is being taken to strengthen the controls.

### ACCOUNTING PROCEDURE WEAKNESSES

1. The Long Lake phase of the Snettisham construction costs, including movable equipment and other personal property, were formally transferred to APA as of October 31, 1975, and June 30, 1976. At the time of our review, adequate inventory control had not yet been established over the property. We also noted that improved inventory control was needed over other APA property.

A complete inventory of Snettisham Project and General Investigation (GI) property should be taken. Property items should be posted to property cards and location of the items should be posted to the property records. Property identification numbers should be affixed to all movable property. During the inventory of GI property, a determination should be made of items which could be excessed or transferred to the Eklutna or Snettisham Projects. Non-sensitive items with an acquisition cost of \$300 or less should be removed from the accountability records per Department of the Interior's regulations.

APA officials said an inventory will be taken and accounting records will be updated. Action has been taken to remove non-sensitive items costing \$300 or less from the accounting records.

2. Overhead costs for the Snettisham and Eklutna Projects were based on a predetermined amount used for budget purposes and were not based on a study of overhead charges.

Based on our suggestion, APA performed a comprehensive overhead allocation study, which included rent, salaries, travel, and other overhead costs. The study disclosed that the overhead charges for the Eklutna Project were understated by \$8,900 in 1976 and \$30,700 for prior years. Also, the Snettisham Project was understated by \$18,200 in 1976 and \$43,800 for prior years. The financial statements were adjusted to include these costs. We believe that APA should periodically review the overhead charges allocated to the power projects.

3. In our review of charges to individual GI studies, we noted that payroll cost codes had not always been established on a timely basis. For instance, the Bradley Lake Project which has been authorized since 1962 had no payroll cost code. This has resulted in understating the project costs. We also noted that general expenses were not being distributed to individual projects.

At the completion of our review, APA had taken action to establish project cost codes. APA officials told us that an adjustment will be made to include the estimated costs incurred to date for the Bradley Lake Project and that general expenses will be distributed to individual projects.

4. The Snettisham Project's depreciation expense for electric plant has been calculated using a 75 year life in accordance with the APA accounting instructions for new projects. A composite life will have to be determined on the basis of actual cost by feature and an adjustment made to the fiscal year 1976 depreciation expense.

APA officials said the composite life for computing depreciation will be determined and an adjustment to the fiscal year 1976 expense will be made.

#### CHANGES REQUIRED TO THE FINANCIAL STATEMENTS

In addition to the adjustment for overhead expenses referred to on page 2, the following material adjustments were made.

##### Snettisham Project

The financial statements were adjusted to include the Snettisham electric plant inservice costs transferred by the Corps of Engineers to APA as of October 31, 1975 (\$76,190,693), and June 30, 1976 (\$3,245,572). These costs were reduced by \$2,698,763 for the restoration costs for the Salisbury Ridge portion of the transmission line made nonreimbursable by the Water Resource Development Act of 1976 (P.L. 95-587). Snettisham feasibility study costs (\$274,158) were transferred from an inactive GI account to the electric plant inservice. Interest during construction was computed (\$113,740) on the feasibility costs and included in electric plant inservice. The electric plant inservice was increased to reflect the net loss on Snettisham Project operations (\$543,219) prior to formal acceptance of the project by APA on October 31, 1975, together with the associated interest during construction (IDC) of \$47,569. The above adjustments resulted in an increase in the depreciation (\$237,343) and interest (\$1,489,412) expense accounts.

##### Eklutna Project

Adjustments were made to correct the method of recording the Eklutna 1964 earthquake loss which was subsequently made non-reimbursable by legislation. Ten years of amortization charges (\$1,042,473) were reversed.

Adjustments were made to the plant account resulting in a reduction of \$1,237,293. Interest (\$8,618) and depreciation (\$9,674) expenses were increased.

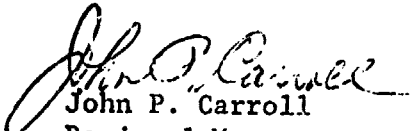
Interest during construction was not computed on construction costs incurred between 1962 and 1975. These costs increased Eklutna electric plant costs by \$14,726.

A sale of power (\$205,734) was recorded in fiscal year 1976, which should have been recorded in prior years. The necessary adjustment to current year and prior years revenues was made.

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

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

Sincerely yours,

  
John P. Carroll  
Regional Manager