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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
7014 FEDERAL BUILDING, 1961 STOUT STREET
DENVER, COLORADO 80202

JUL 8 1971

Mr. James M. Ingles, Regional Director
Bureau of Reclamation
Region 7
Building 20, Denver Federal Center
Denver, Colorado 80225

Dear Mr. Ingles:

We have completed our review of the adequacy of the accounting procedures and controls employed by the Bureau of Reclamation, Region 7, in recording and reporting accrued revenues and expenditures of selected receipt, appropriation, and fund accounts as of June 30, 1970, and August 31, 1970. Our review at the Region was part of a study conducted at selected departments and agencies to determine if they were reporting accruals in accordance with the concepts of the Office of Management and Budget (OMB) Bulletin No. 68-10, as amended by the letter from the Director, OMB, dated April 13, 1970, and Treasury Fiscal Requirements Manual (TFRM) Transmittal Letters Numbers 18, 36, 46, and 49. The data gathered was primarily for the information of the Steering Committee of the President's Commission on Budget Concepts.

We reviewed instructions and procedures related to the recording and reporting of accrued revenues and expenditures. We obtained information regarding these procedures through a test of transactions, the response to a questionnaire submitted to the Region, and discussions with Regional financial personnel.

We have concluded that the accrual procedures employed by Region 7 are generally in compliance with the OMB and Treasury Department concepts. However, we identified problems, which have been referred to the Steering Committee for resolution, in connection with (1) long-term receivables and payables, (2) contract holdbacks and (3) disclosure of unearned income. The problems are discussed in the following paragraphs.

LONG-TERM RECEIVABLES AND PAYABLES

We found that the Region was reporting long-term receivables and payables along with current receivables and payables on its accrued revenue and expenditure reports to the Treasury.

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We noted two instances of receivables that had been outstanding for a considerable time. They were originally established as current receivables but had become the subject of protracted negotiation or litigation. However, as of June 30, 1970, they were still being classified and reported as current receivables.

Included in accounts payable as of June 30, 1970, was about $465,000 representing reimbursement due an irrigation district to repay canal rehabilitation costs. However, this reimbursement is being effected by appropriation at the rate of only $8,000 a year.

Clarifying instructions are needed as to the correct method for reporting long-term receivables and payables such as these.

CONTRACT HOLDBACKS

Holdbacks are included in accrued expenditures but are not recorded as liabilities of the appropriation. When progress payments are made to contractors, disbursements (and expenditures) are recorded against the expenditure account for the total amounts of the progress payments and the holdbacks. The holdbacks are then recorded as collections into a deposit fund.

DISCLOSURE OF UNEARNED INCOME

The accrued revenue reporting form (Form No. BA-6728) has a single column, "Accounts Payable", for reporting liabilities. Region 7 had unearned income transactions which were being reported as accounts payable. We believe that the form should be modified to allow for identification and reporting of unearned income.

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In addition to the above items referred to the Steering Committee, we noted the following areas where we believe the Region can take action to improve its procedures for recording and reporting accrued revenues and expenditures.

CONTRACT EARNINGS REPORTS

Procedures provide for reporting contractor performance on construction, relocation, and fabrication contracts. Reports are not required on a regular basis but only for those months in which performance has taken place. Since negative reporting is not required, the

Region has assumed that failure to report contractor earnings has been due to a lack of performance.

Although we found no indications that unreported performance was occurring on construction contracts, we did find indications that unreported performance may be occurring on relocation and fabrication contracts.

As of August 31, 1970, the Region had about 21 active relocation contracts; August performance was reported on only 4 contracts. Our review of several fabrication contracts showed that as much as nine months elapsed between contractor performance reports and that in some cases the only report received was the bill for the total contract costs. A representative of the Region cited another problem in connection with fabrication contracts covering a number of equipment components. The contractor performance report consisted of a single percentage of completion figure whereas the components included in the contract might have varying costs and be in varying stages of completion.

We believe that Region 7 lacks reasonable assurances that its monthly accrual reports to the Treasury include all contractor performance and that the adequacy of the procedures for contractor reporting and Region 7 processing should be reviewed. Specifically, the Region should periodically test its exception reporting technique and should consider obtaining reports on percentage of completion by component on applicable fabrication contracts.

RECONCILIATION OF ACCRUED REVENUES

The Region maintains a number of income accounts which include income applicable to various receipt and appropriation funds. Under the Region's present system, detailed analysis of each income account would be required to arrive at the amount of accrued revenue for any one fund.

The Region has, therefore, elected to use the formula contained in TFRM Transmittal Letter No. 18 to determine the amount of accrued revenue to be reported to the Treasury. While this method is acceptable, it does not provide the control that would exist if the balances in the income accounts were available by fund for comparison with the amounts derived by use of the formula.

For example, in computing the changes in accounts receivable to be included in the formula, the Region did not use the same accounts receivable accounts for the June 30, 1970 report, as were used for June 30, 1969. Had the balances for the same accounts been used to compute both the beginning and ending receivables, the change in accounts receivable for fiscal year 1970 would have been a decrease of about $366,000 instead of the increase of about $209,000 reported by the Region.

Another instance was noted where the Region did not use the balances of the same accounts to compute both the beginning and ending receivables for a reporting period. The general ledger accounts receivable for fund 14X5000.2 as of August 31, 1970, were not the same accounts as were used in computing the July 1, 1970, beginning balance. We were advised by a Regional representative that the same accounts should have been used but that certain accounts were mistakenly omitted in computing the August 31 receivables.

In both these instances, had income accounts been used to compute revenues and the Treasury formula used for validation, the errors would have been discovered prior to report submission. We recommend that the Region consider early development of a computer program to extract reportable revenues by fund from the income accounts.

UNVERIFIED NET EXPENDITURES

Due to a computer programming error, the August 31, 1970, general ledger accounts payable balances could not be used in the report to Treasury. A Regional representative advised us that the accounts payable balances reported were derived by applying the Treasury formula. The known amounts were inserted into the formula and the accounts payable treated as the unknown. As a result of the above procedure, net expenditures and accounts payable reported as of August 31, 1970, were not validated.

We were advised that corrections were being made to the computer program to prevent recurrence of the error. We recommend that the Region review the corrective action to insure that the error has been permanently eliminated.

TRAVEL ADVANCES

We were advised that during the year travel advances are reported as advances on the monthly reports. Advances outstanding at yearend are converted to accounts receivable for reporting purposes. In order to recognize this inconsistency between the monthly and yearend reports, we recommend that the Region identify the travel advances included in accounts receivable by a footnote to the June 30 reports.

UNBILLED ACCOUNTS RECEIVABLE

We were advised that at the end of each fiscal year, the Region bills Government agencies for all unbilled work performed and records the accounts receivable and revenue. During the year, however, receivables and revenue are recorded only at the time of billing which in some instances is quarterly rather than monthly. The Region accounts for work in progress for others and could bill benefiting agencies for work performed each month. We recommend that the Region explore the feasibility of billing benefiting agencies each month so as to enable agencies billed to record and report payables and expenditures in the same accounting period.

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Please notify us as soon as possible regarding the changes you have made in the areas mentioned above.

We appreciate the cooperation received from your staff. We will be glad to discuss the results of our work with you or your staff if you so desire.

Copies of this letter are being sent to the Commissioner, Bureau of Reclamation, and the Director, Office of Survey and Review, Department of the Interior.

Sincerely yours,

John E Murphy
for S. D. McElyea
Regional Manager