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REPORT TO THE CONGRESS

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Improvements Needed In Financial Activity Of The Federal Hydroelectric System In The Missouri River Basin B-125042

Department of the Interior

Department of the Army

BEST DOCUMENT AVAILABLE

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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FEB. 28, 1972

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

B-125042

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

This is our report on improvements needed in the financial activity of the Federal hydroelectric system in the Missouri River Basin. The system is operated by the Department of the Interior and the Department of the Army.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of the report are being sent to the Director, Office of Management and Budget; the Secretary of the Interior; the Secretary of the Army; the Chairman, President's Water Resources Council; and the Chairman, Federal Power Commission.

Elmer B. Staats
Comptroller General
of the United States

Contents

FINANCIAL STATEMENTS

ABBREVIATIONS

GAO	General Accounting Office
GSA	General Services Administration
IDC	interest during construction
MRBIP	Missouri River Basin integrated projects
MRB Project	Missouri River Basin Project
O&M	operation and maintenance

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

IMPROVEMENTS NEEDED IN FINANCIAL ACTIVITY OF THE FEDERAL HYDROELECTRIC SYSTEM IN THE MISSOURI RIVER BASIN

Department of the Interior
Department of the Army B-125042

D I G E S T

WHY THE REVIEW WAS MADE

In 1962 the General Accounting Office (GAO) made several recommendations for improving the accounting policies and practices of the Federal hydroelectric system in the Missouri River Basin. GAO made this follow-up review of the financial activities of the system to determine the adequacy of the current policies and practices.

The system consists of projects constructed and operated by the Bureau of Reclamation, Department of the Interior, and the Corps of Engineers, Civil Functions, Department of the Army.

FINDINGS AND CONCLUSIONS

Rate and repayment studies

Since 1963 the Bureau has not published annual rate and repayment studies showing whether electric power rates are adequate to repay the Federal investments in the system within the required 50 years. These studies should be published and should include comparisons of actual repayments with scheduled repayments established on an orderly basis.

GAO compared actual repayments with what the repayments would have been under two methods of amortization. Under a compound-interest method--requiring the lowest installment in the first year and progressively increasing installments in each succeeding year--the deficiency in repayment would have been $41.8 million. Under a straight-line method--requiring equal annual installments--the deficiency would have been $131.2 million. (See p. 9.)

Consolidated financial statements

The Bureau does not prepare consolidated financial statements for the hydroelectric system. On the basis of information in the accounting records of the Bureau and the Corps, GAO prepared such statements for projects in the system. In GAO's opinion, however, the statements do not present fairly the financial position of projects in the system or the results of system operations, because the Bureau and the Corps recorded costs of similar items differently (see p. 13), because the Corps did not record revenues of about $138 million that had been allocated to the Corps projects by the Bureau (see p. 21), and because all costs applicable to all project purposes were not recorded (see p. 27).

FEB. 28, 1972

Tear Sheet

Consolidated financial statements for the Federal hydroelectric system in the Missouri River Basin are needed for full disclosure of its financial condition and the results of its operations. (See p. 24.)

RECOMMENDATIONS OR SUGGESTIONS

The Department of the Interior should publish annual rate and repayment studies for the Missouri River Basin Project, which should include comparisons of actual repayments of the Federal investment with scheduled repayments established on an orderly basis. (See p. 12.)

The Departments of the Interior and the Army should develop uniform and consistent accounting practices for the Federal power program.

The Department of the Interior also should prepare annual consolidated financial statements for the Federal hydroelectric system in the Missouri River Basin and should establish a formal departmental policy for all Federal power systems for allocating system revenues for repayment of the Federal investment in the various projects and for determining the investment base for computing interest payable to the U.S. Treasury. (See p. 25.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

Although the Department of the Interior agreed that consideration should be given to the practicability of publishing annual rate and repayment studies, it did not agree with the need for including comparisons of actual with scheduled repayments of the Federal investments. The Department stated that the additional scheduling of repayments "may or may not be useful to management." (See p. 11.)

GAO believes that a comparison of actual repayments of the Federal investment with scheduled repayments established on an orderly basis is needed for evaluating the adequacy of revenues in meeting repayment requirements. (See p. 12.)

The Army agreed--with one exception--to GAO's recommendations concerning the need for comparable and consistently applied accounting policies and practices. (See pp. 18 and 20.)

The Department of the Interior agreed with the need for resolving differences in several accounting practices (see pp. 15, 18, and 22) and appointed a committee, comprising representatives of the Corps and the Bureau, to study financial reporting problems, with a view toward preparing an annual consolidated financial statement. (See p. 25.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations or suggestions requiring action by the Congress. It is submitted to inform the Congress of the financial operations of the Federal hydroelectric system in the Missouri River Basin and of our recommendations for corrective actions.

CHAPTER 1

INTRODUCTION

The Missouri River Basin encompasses those parts of the States of Montana, Wyoming, North Dakota, South Dakota, Nebraska, Kansas, Colorado, Minnesota, Iowa, and Missouri from which water drains into the Missouri River. Although early Federal water resource development activities in the Missouri River Basin were carried out by constructing individually authorized projects, the principal water resource development activities have been and are being conducted under a comprehensive plan approved by the Flood Control Act of 1944 (58 Stat. 891) which authorized the Missouri River Basin Project[1] (MRB Project).

The MRB Project consists of single- and multiple-purpose facilities designed primarily to provide benefits from flood control, navigation, irrigation, and hydroelectric power. Other benefits provided include municipal and industrial water supplies, recreation, and improvement of fish and wildlife habitat.

Generally the Corps of Engineers, Civil Functions, Department of the Army, constructs the multiple-purpose and flood control facilities on the Missouri River and the flood control facilities on tributary streams. The Bureau of Reclamation, Department of the Interior, constructs the irrigation facilities on the Missouri River and the multiple-purpose and irrigation facilities on tributary streams. Each agency operates the facilities it constructs, including the hydroelectric generation facilities. The Bureau also constructs power transmission lines and markets the power not needed for operation of the Corps and Bureau facilities.

The responsibility for the activities of the Corps in the Missouri River Basin is assigned to the Corps' district

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[1] The name of the project was changed to the Pick-Sloan Missouri Basin Program by Public Law 91-576 dated December 24, 1970.

offices at Omaha, Nebraska, and Kansas City, Missouri, and to the Corps' Missouri River Division at Omaha. The district offices are headed by Army engineer officers (district engineers) who carry out both military and civil works activities within defined areas under the general direction of division engineers. The division engineers are responsible to the Chief of Engineers, Washington, D.C.

The responsibility for the activities of the Bureau in the Missouri River Basin is assigned to the Bureau's regional offices at Billings, Montana, and Denver, Colorado, and to project offices at Huron, South Dakota; Bismarck, North Dakota; Casper, Wyoming; Loveland, Colorado; and McCook, Nebraska. Under authority delegated by the Secretary of the Interior, the management of the Bureau is vested in the Commissioner of Reclamation under the supervision of the Assistant Secretary of the Interior for Water and Power Development.

This report includes consolidated financial statements, which we prepared from the Corps and Bureau records covering those Federal projects within the basin having hydroelectric power marketed by the Bureau. These projects are the Corps' six projects located on the Missouri River (main-stem projects)--the Fort Peck, Fort Randall, Garrison, Oahe, Big Bend, and Gavins Point projects--and the Bureau's projects consisting of the MRB Project (including the Bureau's part of the Fort Peck project) and the separately authorized Colorado-Big Thompson, Kendrick, North Platte, Riverton, and Shoshone projects.

These Bureau and Corps projects have power facilities which have been physically interconnected and are operated as an integrated power system. For purposes of this report, these projects are referred to as the Missouri River Basin integrated projects (MRBIP). Other Federal water resource development projects existing within the Missouri River Basin--such as single-purpose flood control projects constructed and operated by the Corps--are not discussed in this report.

ALLOCATION OF TOTAL ESTIMATED CONSTRUCTION COSTS TO PROJECT PURPOSES

The total estimated construction costs for MRBIP were \$5.25 billion which included about \$688 million to complete the construction of authorized projects and about \$2 billion for construction work not yet authorized. Pursuant to law the costs applicable to certain project purposes--primarily power, irrigation, and municipal and industrial water programs--are reimbursable to the Federal Government.

Allocations of costs to project purposes are important because the charges to beneficiaries for certain services of the projects are determined, in large part, on the basis of the costs established by such allocations. For example, the construction costs allocated to power must be determined before power rates can be established in accordance with the Flood Control Act of 1944 (16 U.S.C. 825s) and the act of May 18, 1938 (16 U.S.C. 833). The Secretary of the Interior has determined that a reasonable period for repayment of the Federal investment in power is 50 years; thus power rates are intended to be established at a level which will accomplish repayment in that time.

Our consolidation of the historical financial data included by the Bureau in its rate and repayment studies for MRBIP showed that, as of June 30, 1969, \$86.6 million of power revenues were available for repayment to the Government, that \$81.6 million had been applied to repayment of the commercial power investment, and that the remaining \$5 million had been applied primarily to the repayment of the irrigation investment in the individually authorized projects.

Our consolidation of the data showed also that, at June 30, 1969, the plant-in-service costs allocated to the commercial power investment, prior to any reduction for repayments, were \$974,566,207, as follows:

Project	Commercial power investment in plant-in-service costs at June 30, 1969: Electric plant	Multiple-purpose facilities allocated to power	Total
Missouri River Basin:			
Bureau of Reclamation	$280,293,534	$ 35,725,445	$316,018,979
Corps of Engineers	386,099,745	188,348,692	574,448,437
Total	666,393,279	224,074,137	890,467,416
Colorado-Big Thompson	43,932,669	16,694,726	60,627,395
Kendrick	15,827,094	1,110,383	16,937,477
Shoshone	3,510,574	786,527	4,297,101
Riverton	453,169	-	453,169
North Platte	1,136,945	646,704	1,783,649
Total	$731,253,730	$243,312,477	$974,566,207

For each project or group of projects containing hydroelectric features for which the Bureau markets the commercial electric power, the Bureau usually publishes an annual statement "Power Systems Average Rate and Repayment Studies."

This statement purportedly shows whether the power rates are adequate to produce sufficient revenues to repay (1) all costs of operating and maintaining the power system, (2) interest on the unamortized portion of the Federal investment in commercial power, (3) the investment in each replacement of a power facility or transmission system, (4) the capital investment allocated to power within 50 years, and (5) the portion of construction costs of irrigation facilities which are determined to be beyond the repayment ability of irrigators--such repayment generally to be made after repayment of the commercial power investment.

Generally the annual rate and repayment studies show actual (historical) cost and revenue data through the end of the current fiscal year and a projection of such data through the repayment period.

Although by law the power program generally is subordinate to other purposes of multiple-purpose projects, it has developed into a major activity from both a construction and an operating point of view. Also, as the major revenue-producing feature of the projects, the power program generally is required by law to repay that part of the projects' construction costs allocated to irrigation which is determined by the Secretary of the Interior to be beyond the ability of irrigators to repay. Therefore power revenues of MRBIP will be required for repayment of the estimated ultimate development costs of (1) $1.3 billion to be allocated to power and (2) $2.3 billion to be allocated to irrigation, which will be beyond the ability of irrigators to repay.

In total, power revenues will be required for the repayment of about 82 percent of the estimated ultimate reimbursable development costs, as shown below.

Sources of repayment	Amount	Percent
Irrigation	$ 721,575,149	16.5
Commercial power	3,607,572,378[a]	82.2
Municipal and industrial water	55,335,370	1.3
Total reimbursable costs	$4,384,482,897	100.0

[a]Includes $6,825,527 of reimbursable investment which is expected to be recovered from either power or other revenues.

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CHAPTER 2

NEED FOR GREATER DISCLOSURE OF THE STATUS OF REPAYMENT OF REIMBURSABLE COSTS FROM POWER REVENUES

Since 1963 the Bureau has not published the results of studies designed to show whether the rates at which Federal power is sold in the Missouri River Basin are adequate to recover the Federal investment in the MRB Project within the required repayment period--although the results of similar studies usually are published annually for other Federal hydroelectric power projects.

As pointed out on page 6, the Bureau's rate and repayment studies for power projects generally show actual (historical) cost and revenue data through the end of the current fiscal year and a projection of such data through the repayment period. The Department has taken the position that the repayment requirements are being met if the projections of revenues and costs included in its studies indicate that the investment in a project will be repaid within the 50-year repayment period, regardless of the amount actually repaid to date.

The Bureau's annual rate and repayment study for the MRB Project, however, has not included projections of estimated results of operations since June 1964, when a rate and repayment study was published that included historical data through fiscal year 1963. Subsequent annual statements for the MRB Project have reported only updated historical data and have noted that an economic analysis was under way and that no projections would be made until its completion.

Although the rate and repayment studies show whether the Bureau anticipates that the Federal investment will be repaid within the 50-year repayment period, the statements--even when properly prepared--do not provide management and the Congress with an adequate basis for inquiring into the current status of repayment.

We are of the view that the Bureau, in addition to publishing annual rate and repayment studies for the power projects, should publish supplementary statements comparing the actual repayments to date with the scheduled repayments established on an orderly basis for repaying the investment in the projects within the repayment period. Such comparisons would show whether the scheduled repayments were being met in accordance with predetermined milestones and, if not, the extent of the deficiencies. Such comparisons also would provide management and the Congress with a basis for inquiry into the action necessary to ensure that revenues will be available to meet the increased repayments required during the remainder of the repayment period.

Although the legislation authorizing MRBIP does not require that the Federal investment therein be repaid in regularly scheduled annual amounts, we have computed the annual repayments required for repaying the Federal investment in MRBIP over a 50-year period on the basis of two amortization methods--the compound-interest amortization method and the straight-line amortization method.

Our comparison of the actual repayments as of June 30, 1969, with the cumulative computed annual repayments required under each of these methods showed that the deficiency in the actual repayments would have been about $41.8 million under the compound-interest amortization method and about $131.2 million under the straight-line amortization method. (See exhibit B.)

Our computation of the deficiencies in the repayment of the investment in MRBIP, under both amortization methods, was based on the costs representing the Federal investment to be repaid as recorded in the accounts of the Bureau and the Corps. The deficiencies probably would have been greater if the recorded costs had been adjusted for certain accounting inadequacies revealed by our review and commented on in chapter 3.

The difference in the deficiencies in the repayment of the investment in MRBIP at June 30, 1969, under the two amortization methods arose from the greater revenues required during the early years of the project under the straight-line method to provide funds for the repayment of the investment in a project and the interest on the investment than are required under the compound-interest method.

Under the straight-line method of amortizing the investment in a project during a 50-year repayment period, annual funds are required in the total amount of one fiftieth of the investment and interest on the unrepaid investment. Initially these annual fund requirements are at the highest level and progressively decrease as the unrepaid investment and the interest thereon are reduced.

Under the compound-interest method of amortizing the investment in a project, annual funds are required of a fixed amount which, during the repayment period, will provide for the repayment of the investment and the interest on the investment. Of the fixed annual amount, the amount applicable each year to repayment of the investment is increased as the interest on the unrepaid investment is decreased.

We recognize that deficiencies in meeting scheduled annual and cumulative repayments of the Federal investment in a power project--whether established under the compound-interest amortization method, the straight-line amortization method, or some other method--do not necessarily mean that the existing power rates are inadequate to provide the revenues needed to meet the increased repayments in the remainder of the repayment period. Deficiencies in meeting repayment requirements on either basis might be eliminated in future years by making annual repayments in excess of the annual amortization requirements.

The adoption of an orderly method for scheduling annual repayment requirements, however, would provide useful information to management and to the Congress for inquiry into how the additional revenues will be obtained and into the adequacy of power rates. We believe that the need for such supplemental information is particularly necessary in the case of MRBIP, in view of the fact that many of the projects have been completed and have been in operation for many years.

AGENCY COMMENTS

In a draft of this report, we proposed that the Secretary of the Interior instruct the Bureau (1) to evaluate the current Federal power rates in the Missouri River Basin to determine whether the rates are sufficient to meet repayment requirements and (2) to publish annual studies which show the current status of repayment of the Federal investment on the basis of actual transactions as well as of anticipated future transactions. We expressed the view that either a compound-interest or a straight-line method of amortization would be a reasonable method for showing information to be used in evaluating the current status of repayment on the basis of actual transactions.

In commenting on the draft report by letter dated June 24, 1971 (see app. I), the Department of the Interior agreed that the Bureau should give consideration to the practicability of publishing an annual rate and repayment study for MRBIP.

The Department did not agree with our suggestion regarding the use of a compound-interest or straight-line amortization method for scheduling the repayment of the Federal investment in MRBIP in lieu of the Bureau's method of scheduling repayments. It pointed out that:

1. The method used by the Department showed the Department's ability to repay a project within the authorized repayment period (50 years). The Congress has been fully briefed on this method and has accepted the method.

2. Accepting our method would involve additional scheduling, which might or might not be useful to management.

3. Such factors as low-water years and requirements for filling the reservoirs in the early life of projects caused revenues to be less than anticipated. Such factors as these have a tremendous effect upon repayment results portrayed on a straight-line basis during the early years of a project when interest costs are high. There would be less impact under a compound-interest method of amortization, but the Department favors its present method which reschedules all costs for repayment over the remaining project period.

We do not suggest that the Department abandon its method of preparing its rate and repayment studies but that it supplement those studies with information showing a comparison between actual repayments and what repayments would have been if made on some orderly basis. We believe that, although the Congress may be fully aware of the Department's present method, the additional schedules we are recommending will be a substantial improvement and will be useful to the Department as well as to the Congress in evaluating the status of repayment at a particular point in time.

As an example, the impact of the low-water years referred to in the Department's comments would be readily apparent when matched against a schedule showing repayment on some orderly basis and would provide an indication to serve as a basis for inquiry into how those revenues will be made up in the remaining years of the project life. The Department's present method does not provide this type of information to management.

We believe that the rate and repayment studies should be supplemented by a comparison of actual repayments of the Federal investment with scheduled repayments established on the basis of the compound-interest, straight-line, or some other orderly amortization method.

RECOMMENDATION TO THE SECRETARY OF THE INTERIOR

We recommend that, to obtain meaningful information for use in evaluating the status of repayment of the Federal investment and the adequacy of the Federal power rates in the Missouri River Basin, the Secretary of the Interior publish annual rate and repayment studies for the MRB Project and supplement such studies with comparisons of actual repayments of the Federal investment with scheduled repayments established on an orderly basis.

CHAPTER 3

IMPROVEMENTS NEEDED IN

ACCOUNTING POLICIES AND PRACTICES

The information included in chapter 2 for use in evaluating the status of repayment of the Federal investment in the Federal hydroelectric system in the Missouri River Basin was based on financial data recorded in the accounts of the Bureau and the Corps. We believe that some of the accounting policies and practices followed by the two agencies are not adequate.

Each agency maintains its own accounting records. Although the Bureau--as the power-marketing agency--obtains from the Corps certain financial data needed by it for preparation of the MRB Project rate and repayment studies discussed in chapter 2, consolidated financial statements--statements of assets and liabilities and of power revenues and expenses--are not prepared by the Bureau either for the Federal hydroelectric power system or for other reimbursable and nonreimbursable activities in the Missouri River Basin.

We prepared consolidated financial statements for MRBIP on the basis of information in the accounting records of the two agencies. (See schs. 1 through 3.) In our opinion, the statements do not present fairly the financial position or results of operations of MRBIP, partly because comparable financial data was not available in the accounts of the two agencies. We believe that, before the accounting records can be considered adequate to provide reliable financial data for the preparation of consolidated financial statements, the Bureau and the Corps must adopt comparable accounting and financial policies and practices and must apply them consistently.

Our prior report to the Congress on the audit of hydroelectric power and related activities of the MRB Project for fiscal years 1959 and 1960 (B-125042, Apr. 30, 1962), included recommendations regarding weaknesses in accounting policies and practices which, in many instances, were still applicable during our current review because appropriate corrective actions had not been taken. We found that the Bureau and the Corps (1) had recorded costs of items of a similar nature differently and (2) had not reached an agreement on allocation of power revenues to Corps projects. We believe that the Bureau should prepare annual consolidated financial statements on the Federal hydroelectric program in the Missouri River Basin.

DIFFERENCES AND DEFICIENCIES IN RECORDING COSTS OF ITEMS OF A SIMILAR NATURE

Differences and deficiencies exist in the methods used by the Bureau and the Corps for allocating joint expenses of operations; for recognizing, computing, and recording interest on the Federal investment and depreciation; and for recording the imputed cost of space provided by the General Services Administration (GSA). These differences and deficiencies are discussed below.

Allocations of joint expenses of operations

The Bureau allocated joint operation and maintenance (O&M) expenses on the basis of the current use of the facilities; however, the Corps allocated these expenses on the basis of the expected ultimate use of the facilities.

The Corps, by following the expected ultimate-use concept for the MRB Project, has allocated joint O&M expenses to irrigation, which is not operational or revenue producing, but has not allocated joint O&M expenses to recreation, which is currently an active purpose. For example, three Corps main-stem projects have irrigation as a project purpose and, although irrigation is not yet operational, about 35 percent of the joint O&M expenses is allocated to irrigation. For fiscal year 1969 this amounted to about $724,000.

In our opinion, the allocation of joint O&M expenses on the basis of the current-use method rather than the expected-ultimate-use method would (1) result in a more realistic allocation of expenses to those operating activities which give rise to such expenses and (2) provide more pertinent financial data for management's use in evaluating efficiency of operations. The Department of the Interior, in commenting on a draft of this report, advised us that a committee, comprising representatives of the Corps and the Bureau, had been appointed to study this matter and to make recommendations.

Interest on Federal investment

The procedures and practices of the Bureau and the Corps for computing interest on the Federal investment in water resource projects have not been the same under similar situations. Two of the differences follow.

The Corps has not recorded in its accounts $138.3 million of power revenues allocated by the Bureau to Corps generating plants (see p. 21); therefore the interest costs shown in Corps records are overstated because the investment base has not been reduced by the revenues allocated by the Bureau. The interest costs are overstated also because the investment base erroneously includes the power investment allocated to project-pumping purposes--primarily for irrigation.

When ascertaining Corps interest costs for inclusion in the power rate and repayment studies, the Bureau recomputes the interest costs reported by the Corps to give effect to the power revenues allocated to the Corps and to exclude power investment related to project pumping. For fiscal year 1969 the Bureau's recomputation resulted in a reduction of $8.4 million in the annual interest costs reported by the Corps.

We believe that the Corps should record in its accounts the revenues allocated by the Bureau and should maintain its accounts in a manner designed to show the interest costs of the power activity. The Department of the Interior advised us (see app. I) that it agreed that the Corps should record in its accounts the revenues allocated by the Bureau and expressed the belief that procedures would be formalized for the transfer of such revenues.

The Corps' engineering regulations require that interest during construction be capitalized to the end of the month in which facilities reach the available-to-serve stage and that thereafter interest be recorded as an operating expense. In contrast the Bureau's practice is to capitalize interest during construction until the end of the fiscal year in which facilities reach the revenue-producing stage and to record interest as an operating expense from the first day of the following fiscal year.

We believe that the Bureau's current-year power costs would be more accurately disclosed if interest were recorded as an operating expense from the first day of the month following the date that facilities reach the available-to-serve stage. The recording of interest expense on this basis would be consistent with the Corps' regulations and with the requirements of the uniform system of accounts for public utilities prescribed by the Federal Power Commission, which provide that interest during construction be capitalized only until such time as the facilities are ready for service.

The department of the Interior advised us in its comments on a draft of this report that the method we suggested was a refinement requiring more computations and bookkeeping transactions which--in the Department's opinion--were not offset by equal improvements in the accuracy of payout projections. The extent of the impact is dependent upon the point in time during a fiscal year in which a project becomes available to serve. In addition to affecting the payout projections, the practice followed by the Bureau could significantly affect the annual financial statements. We continue to believe, therefore, that--in the interest of accuracy, consistency, and compliance with Federal Power Commission requirements--the Bureau should adopt the method followed by the Corps.

Depreciation of facilities

The Bureau and the Corps have made substantial progress in resolving differences in depreciation-accounting methods applicable to power operations. Both agencies now are computing and recording depreciation on the plants in service on the basis of the compound-interest method. The agencies' implementing procedures and practices, however, are still inconsistent in two areas, as discussed below.

The Bureau computes depreciation on the investment in plants in service at the end of the preceding fiscal year. In contrast the Corps computes depreciation on the investment in plants in service at the end of the preceding fiscal year plus one half of the net change in the investment during the year. We believe that the Corps' method of computing depreciation provides a more accurate basis for ascertaining the cost of operations during a year and should be adopted by the Bureau.

For such items as vehicles, office furniture, and various equipment items, the Bureau computes depreciation on the basis of the straight-line method, and the total balances of the equipment accounts, less the estimated salvage value, are used as the depreciation base. The Corps computes depreciation for these items on the basis of the compound-interest method, and the total balances of the accounts are used as the base. We believe that the Bureau and the Corps should use the same method for depreciating vehicles, furniture, and equipment items.

The Department of the Interior advised us that it agreed that a uniform practice would be desirable in the computation of depreciation for the Bureau and the Corps and that it would pursue the feasibility of developing uniform procedures.

Costs not recorded in project accounts

The Corps did not record in its accounts certain costs involving space rentals paid for by GSA which provides the Bureau and the Corps with building space without reimbursement. Over the years we have pointed out that project costs should not be limited to those costs financed by certain appropriations but should include all costs applicable to a project, regardless of the appropriation source. This is particularly important in a reimbursable program in which an objective of the program is full recovery of costs from customers or users of services--as in the Federal power program.

As a result of our prior recommendations, Bonneville and Southwestern Power Administrations have agreed to include in operating expenses the imputed cost of rental space provided by GSA. During our review the Bureau issued instructions providing for the recording of such imputed space costs. The Corps has not agreed, however, with our position in a draft of this report that the imputed cost of GSA-provided space should be recorded by the Corps as an operating expense.

In commenting on our draft report, the Department of Army advised us that the cost for GSA-provided space amounted to less than one half of 1 percent of total Corps costs and that therefore the Corps did not consider such costs to be of sufficient magnitude to justify their inclusion in project accounts. The Army stated that this conclusion was consistent with standards embodied in title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

The manual (2 GAO 16.8(d)) provides that the cost of GSA-provided space be recorded as an expense when such cost is:

> "*** determined to be of significance in relation to the total costs of the agency, activity, or operation on which financial reports are being prepared."

The guidance provided in the cited section of the manual was concerned primarily with providing cost information necessary for management decisions and not with the full recovery of costs under reimbursable programs. Although significance is a proper limitation in ascertaining whether the imputed costs should be recognized for the purpose of management decisions, a more proper limitation for reimbursable programs is the determination that the recognition of the imputed costs results in an economical practice.

For example, it would not be economical to ascertain and allocate imputed space costs if the administrative cost of doing so approached or exceeded the amount of the imputed costs that would be included in reimbursable costs. We believe, however, that the Corps could ascertain and allocate such space rentals with little additional administrative cost. Such action by the Corps would be consistent with the action taken by the other Federal power agencies to record such imputed space costs. Therefore we believe also that the imputed cost of GSA-provided space should be recorded by the Corps as an operating expense for appropriate allocation to the reimbursable portion of Federal multiple-purpose projects.

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We believe that the Bureau and the Corps should follow consistent and appropriate accounting procedures and practices in accounting for water resource projects in the

Missouri River Basin, to provide a basis for presenting meaningful financial information to management and to the Congress. Such information is necessary, in our opinion, to facilitate cost comparisons and to provide a reasonable basis for evaluating performance and devising future plans, for full disclosure in financial statements, and for facilitating the preparation of the annual rate and repayment studies.

In commenting on a draft of this report, the Department of the Army (see app. II) acknowledged that the need for comparable and consistently applied accounting policies and practices had existed for some time. The Army stated that the Corps proposed to resume its efforts with the Bureau and the Department of the Interior to develop mutually acceptable accounting policies and practices and that the Corps proposed to concurrently examine into the accounting differences and deficiencies noted in this report with a view to making adjustments that are deemed appropriate.

AGREEMENT NOT REACHED ON ALLOCATING POWER REVENUES

During our review Corps officials informed us that power revenues allocated by the Bureau to Corps power-generating projects in the Missouri River Basin, other than those for the Fort Peck Project, had not been recorded by the Corps because agreement had not been reached as to how such revenues should be allocated. We found that, through fiscal year 1969, the Bureau had deposited $138,313,114 in the U.S. Treasury, which was considered by the Bureau as being allocated to Corps projects.

Starting in fiscal year 1966, MRB Project revenues in excess of those needed to cover operating, interest, and replacement costs were used for making repayments of the Bureau's power investment--which bears interest at 3 percent. Although the Corps had 83 percent of the total generation capacity in the MRB Project, none of the net power revenues after fiscal year 1965 were used for repaying the Corps investment--which bears interest at 2-1/2 percent. By allocating revenues in this manner, the Bureau reduces the interest costs on the investment in the MRB Project which are to be recovered by power rates and which are to be paid into the U.S. Treasury.

During our review we informed Bureau officials that the Bureau's studies for the MRB Project had overstated the revenues available for repayment of the Federal investment by about $1.5 million as of June 30, 1969, because certain prior-year adjustments by the Corps had not been considered by the Bureau when preparing the studies. The Department of the Interior advised us that this overstatement--which had been caused primarily by inadequate reporting--had been corrected in the Bureau's rate and repayment study at the end of fiscal year 1970.

Before appropriate financial statements showing the results of the operations of MRBIP can be prepared from the accounts, the Bureau and the Corps must agree to a reasonable basis for allocating power revenues and the Corps must record such allocated revenues in its accounts.

We believe that an acceptable method would be to allocate sufficient revenues to cover Bureau and Corps interest, operating, and replacement costs and to allocate the remaining revenues, or deficiency, to the Bureau and Corps investments in their power projects on the basis of the ratio of each agency's investment in power to the total investment in power at the beginning of a year. A comparable plan was agreed to by the Southwestern Power Administration for allocating its system revenues between the Southwestern Power Administration and the Corps.

The Department of the Interior advised us that it had no objection to transferring to the Corps accounts those revenues which had been assigned to the Corps in the average rate and repayment studies. The Department stated that agreement must be reached with the Corps on a uniform basis for the computation of interest expense, to ensure that revenues transferred will be adequate to offset interest expenses as computed by the Corps.

The Department disagreed, however, with the method we proposed for allocating revenues and stated that--in computing interest expense--system revenues should be allocated to cover the Bureau and Corps interest, operating, and replacement costs and that the remaining revenues should be used in repayment of the Federal investment bearing the highest interest rate, but in such a manner that repayment of each investment would be made within the 50-year repayment period.

To our knowledge this statement is the first indication of a departmental position regarding revenue allocation for the purpose of determining the investment base for computing interest payable to the U.S. Treasury. This position is different from that actually used in some of the other Federal power systems through fiscal year 1971.

The Department's proposed method also differs from the method the Department, in a letter dated September 18, 1959, advised us would be followed in allocating revenues in the Missouri River Basin. In that letter the Department stated that the revenues available for amortization of the Federal investment would be apportioned on the basis of the ratio of each agency's investment allocated to power to total investment allocated to power. The proposed method also is different from the revenue allocation method agreed to by the Department's Southwestern Power Administration.

The Department's proposed revenue allocation method could result, in some cases, in repaying the investment in newer projects having higher interest rates before any revenue is applied to repay the investment in older projects having lower interest rates.

Although we do not consider the Department's proposed method to be the best alternative available, it would--if made a departmental policy for all Federal power systems--have the desirable characteristics of (1) being systematic, (2) providing for uniformity by all Federal power systems, and (3) providing for assigning sufficient revenues to particular project investments to ensure that such investments are repaid within 50 years. This has not been the practice in the past.

We believe that the Department's proposed method--if made applicable to all Federal power systems--would represent an improvement over the various Federal power systems' present practices of using different revenue allocation methods and the inconsistent practices followed within a system from year to year. The proposed method represents a practical solution to the revenue allocation problem if it is consistently, uniformly, and systematically used by all the various Federal power systems.

NEED FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Although the Department of the Interior prepares annual consolidated financial statements for certain major Federal power systems in the United States--including the Federal Columbia River Power System, the Southeastern Federal Power Program, and the Southwestern Federal Power System--it does not prepare such statements for the Federal hydroelectric operations in the Missouri River Basin. The need to standardize financial management practices of the various Federal power systems across the country was recognized by officials of the Department of the Interior in testimony before a congressional committee[1] on a bill (S. 34) providing for the construction of the Garrison Diversion Unit of the MRB Project.

In more recent testimony before a congressional committee,[2] an assistant secretary of the Department again recognized that inconsistencies existed among the power-marketing agencies which, he stated, did not always operate the same way. He concluded that:

> "They [power-marketing agencies] have grown up to operate with slightly different ground rules that I do not think are necessarily consistent."

We believe that the preparation of annual consolidated financial statements for the Federal hydroelectric system in the Missouri River Basin is needed to disclose fully its financial condition and the results of its operations and to afford a basis for comparison with other Federal power systems. Before such comparison would be meaningful, however,

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[1]Hearings dated March 29, 1965, before the Subcommittee on Irrigation and Reclamation of the Senate Committee on Interior and Insular Affairs (85th Cong., 1st sess.).

[2]Hearings dated March 23, 1971, before the Subcommittee on Irrigation and Reclamation of the House Committee on Interior and Insular Affairs (92d Cong., 1st sess.).

the Bureau and the Corps need to resolve the problems discussed in this chapter and to adopt, and consistently apply, appropriate accounting and financial policies and practices.

In the other Federal power systems, the agency which markets the power prepares the annual consolidated financial statements. We believe that, because the Bureau markets the power from the Federal hydroelectric plants in the Missouri River Basin, the Bureau should be assigned the responsibility for preparing annual consolidated financial statements similar to those prepared for the other Federal power systems.

In commenting on a draft of this report, the Department of the Interior agreed that annual consolidated financial statements should be prepared for the Federal hydroelectric operations in the Missouri River Basin. The Department stated that a committee, which included Bureau and Corps representatives, had been appointed at the regional level to study the financial reporting problems and that much of its work would depend upon decisions pertinent to cost allocations and accounting policies discussed in this report.

RECOMMENDATIONS TO THE SECRETARIES OF THE INTERIOR AND THE ARMY

We recommend that the Secretaries of the Interior and the Army develop uniform and consistent accounting practices for the Federal power program.

We recommend also that the Secretary of the Interior (1) prepare annual consolidated financial statements for the Federal hydroelectric system in the Missouri River Basin and (2) establish a formal departmental policy, applicable to all Federal power systems, for allocating system revenues for repayments of the Federal investments in the various projects and for determining the investment base for computing interest payable to the U.S. Treasury.

CHAPTER 4

SCOPE OF REVIEW

Our review of the hydroelectric power activities of the Bureau and the Corps in the Missouri River Basin included a review of applicable policies and procedures and an examination of accounting records, reports, and transactions to the extent we considered necessary to evaluate the reliability of financial data for fiscal year 1969 and for the intervening years since our last review for fiscal year 1960. In addition, we reviewed pertinent legislation and congressional hearings and reports applicable to Bureau and Corps activities in the Missouri River Basin.

Our review was made primarily at the district office of the Corps in Omaha, the regional offices of the Bureau in Billings (Region 6) and in Denver (Region 7), and the project offices of the Bureau in Bismarck and Huron.

Our review was limited to the Corps' and the Bureau's MRB Project and to the Bureau's individually authorized projects in the basin which had been integrated for power-marketing purposes. Other projects of the Corps and the Bureau in the Missouri River Basin, not having power as a purpose, were not included in our review.

CHAPTER 5

OPINION OF FINANCIAL STATEMENTS

The accompanying consolidated statements of assets and liabilities as of June 30, 1969 (see schs. 1 and 3), and the consolidated statement of power operations for fiscal year 1969 (see sch. 2) for MRBIP were prepared by us on the basis of information in the accounting records of the Corps and the Bureau. A statement of assets and liabilities limited to power operations could not be readily prepared because the Bureau and the Corps did not allocate certain assets and liabilities to project purposes. Therefore the accompanying statements of assets and liabilities (see schs. 1 and 3) encompass all project purposes for those projects in the Missouri River Basin which have power as one of the purposes and for which the Bureau markets such power. (See exhibit C.)

The statements were prepared from records maintained on a cost basis and do not show financial results on a repayment basis for the fiscal year or cumulatively. A separate calculation was prepared by us showing the status of repayment at June 30, 1969, on the basis of recorded costs and of both a straight-line amortization method and a compound-interest amortization method. (See exhibit B.)

In our opinion the accompanying financial statements do not present fairly the financial position of MRBIP at June 30, 1969, or the financial results of its operations for the fiscal year then ended because of (1) the accounting conditions applicable to power operations, as discussed in chapter 3, and (2) the failure to record all costs applicable to project purposes other than power, as explained in the notes to the financial statements. The total effect of these conditions has not been determined.

FINANCIAL STATEMENTS

BUREAU OF RECLAMATION AND CORPS OF ENGINEERS (CIVIL FUNCTIONS)

MISSOURI RIVER BASIN INTEGRATED PROJECTS

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 1969

ASSETS

	Amount (000 omitted)
FIXED ASSETS:	
Plant, property, and equipment (sch. 3, notes 2 to 4):	
Completed plant	$2,334,424
Abandoned plant	1,186
Construction work in progress	106,251
Other physical property	3,947
Service facilities	9,009
	2,454,817
Less accumulated depreciation and replacement reserves	76,665
Plant, property, and equipment, net	2,378,152
Investments (note 5)	6,712
Total fixed assets	2,384,864
INVESTIGATION COSTS:	
Undistributed investigations costs	63,678
Investigations on abandoned works	10,508
Total investigation costs	74,186
CURRENT ASSETS:	
Cash on hand and in U.S. Treasury	15,491
Deposit funds	4,809
Accounts receivable	6,730
Prepayments and advances	74
Materials and supplies	1,671
Total current assets	28,775
OTHER ASSETS AND DEFERRED CHARGES:	
Deferred and unmatured receivables (note 6)	12,054
Transitional development costs	3,374
Miscellaneous deferred debits	661
Extraordinary losses on property	212
Work in progress for others	85
Retirement work in progress	1,362
Total other assets and deferred charges	17,748
Total assets	$2,505,573

The accompanying explanatory notes and comments on the financial statements on pages 34 through 38 are an integral part of this schedule. Our opinion on these financial statements appears on page 27.

LIABILITIES AND PROPRIETARY INTEREST

	Amount (000 omitted)
PROPRIETARY INTEREST:	
U.S. Government proprietary interest:	
Federal investment:	
Congressional appropriations	$2,628,454
Interest during construction capitalized (note 7)	114,291
Interest on investment (note 7)	493,010
Government nonappropriation transfers, net	3,486
Gross Federal investment	3,239,241
Less:	
Funds returned to U.S. Treasury	523,392
Cost of nonreimbursable operations, net	218,133
Authorized congressional chargeoffs, net	222
Total	741,747
Net Federal investment	2,497,494
Contributions	2,426
Gross U.S. Government proprietary interest	2,499,920
Less:	
Deficits, reimbursable operations:	
Power (sch. 2 and note 7d)	27,137
Irrigation	10,699
Municipal and industrial water	-1,110
Other	-248
Total	36,478
Net U.S. Government proprietary interest	2,463,442
PAYMENTS BY WATER USERS:	
Water users' equity	847
Net payments on contracts	31,463
Total payments by water users	32,310
CURRENT AND ACCRUED LIABILITIES:	
Accounts payable	5,656
Deposit fund liabilities	897
Other deferred credits	3,268
Total current and accrued liabilities	9,821
Total liabilities and proprietary interest	$2,505,573

SCHEDULE 2

BUREAU OF RECLAMATION AND CORPS OR ENGINEERS (CIVIL FUNCTIONS)

MISSOURI RIVER BASIN INTEGRATED PROJECTS

CONSOLIDATED STATEMENT OF POWER REVENUES AND EXPENSES

FOR FISCAL YEAR 1969 AND CUMULATIVE TO JUNE 30, 1969

	Total	Bureau	Corps
	(000 omitted)		
OPERATING REVENUES:			
Sales of electric energy:			
Municipalities, towns, and villages	$10,197	$10,197	$ -
Other agencies of State government	6,708	6,708	-
Rural cooperatives	28,130	28,130	-
Other agencies of Federal Government	27	27	-
Privately owned utilities	9,677	9,677	-
Bureau projects engaged in electric operations	1,631	1,631	-
Public authorities	1,477	1,477	-
Commercial and industrial	124	124	-
Domestic, rural, and other	92	1	91
Total sales of electric energy	58,063	57,972	91
Other electric income:			
Rents	2,127	2,127	-
Miscellaneous	236	231	5
Total other electric income	2,363	2,358	5
Gross electric revenues	60,426	60,330	96
OPERATING EXPENSES:			
Production expense	6,087	2,439	3,648
Purchased power--Federal	461	461	-
Purchased power--non-Federal	1,316	1,316	-
Transmission expense--Federal lines	5,456	5,456	-
Wheeling and rent expense--non-Federal lines	2,315	2,315	-
Accounting, collecting, and marketing	406	406	-
Administrative and general	2,189	1,521	668
Provision for depreciation (note 4)	5,784	2,836	2,948
Total operating expenses	24,014	16,750	7,264
EXCESS OF OPERATING REVENUES OVER EXPENSES	36,412	43,580	-7,168
Less:			
Interest on investment (note 7)	-31,707	-8,730	-22,977
Net, nonoperating income	16	16	-
	-31,691	-8,714	-22,977
EXCESS OF INCOME OVER EXPENSE, FISCAL YEAR 1969	4,721	$34,866	$-30,145
EXCESS OF INCOME OVER EXPENSE TO JUNE 30, 1968	-31,960		
PRIOR YEARS' ADJUSTMENTS	105		
GAC YEAR-END AND ROUNDING ADJUSTMENTS	-3		
CUMULATIVE EXCESS OF INCOME OVER EXPENSE, JUNE 30, 1969	-$27,137		

The accompanying explanatory notes and comments on the financial statements on pages 34 through 38 are an integral part of this schedule. Our opinion on these financial statements appears on page 27.

BUREAU OF RECLAMATION AND CORPS OF ENGINEERS (CIVIL FUNCTIONS)

MISSOURI RIVER BASIN INTEGRATED PROJECTS

CONSOLIDATED STATEMENT OF PLANT, PROPERTY, AND EQUIPMENT

JUNE 30, 1969

	Combined	MRB Project: Bureau of Reclamation	MRB Project: Corps of Engineers	Individually authorized projects
	(000 omitted)			
COMPLETED PLANT IN SERVICE:				
Multiple-purpose	$1,078,012	$331,847	$ 696,848	$ 49,317
Electric	887,190	325,186	478,438	83,566
Irrigation	329,520	175,687	9,450	144,383
Flood control	21,076	-	21,076	-
Recreation	11,621	439	11,182	-
Fish and wildlife	496	481	-	15
Road betterment	6,509	-	6,509	-
Total completed plant in service	2,334,424	833,640	1,223,503	277,281
ABANDONED PLANT:				
Multiple-purpose	326	127	-	199
Irrigation	860	366	-	494
Total abandoned plant	1,186	493	-	693
CONSTRUCTION WORK IN PROGRESS:				
Multiple-purpose:				
Construction charges	74,309	71,255	3,054	-
Interest during construction	252	177	75	-
	74,561	71,432	3,129	-
Electric:				
Construction charges	21,898	21,526	-	372
Interest during construction	810	810	-	-
	22,708	22,336	-	372
Irrigation-construction charges	8,968	7,372	-	1,596
Recreation-construction charges	14	14	-	-
Total construction work in progress	106,251	101,154	3,129	1,968
OTHER PHYSICAL PROPERTY	3,947	214	-	3,733
SERVICE FACILITIES ACQUISITION COST	9,009	9,009	-	-
Gross plant, property, and equipment	2,454,817	944,510	1,226,632	283,675
Less:				
Accumulated depreciation--plant	69,857	14,636	47,737	7,484
Accumulated replacement--plant	61	-	-	61
Accumulated depreciation--service facilities	6,747	6,747	-	-
Total depreciation and replacement	76,665	21,383	47,737	7,545
NET PLANT, PROPERTY, AND EQUIPMENT	$2,378,152	$923,127	$1,178,895	$276,130

The accompanying explanatory notes and comments on the financial statements on pages 34 through 38 are an integral part of this schedule. Our opinion on these financial statements appears on page 27.

BUREAU OF RECLAMATION AND

CORPS OF ENGINEERS (CIVIL FUNCTIONS)

MISSOURI RIVER BASIN INTEGRATED PROJECTS

EXPLANATORY NOTES AND

COMMENTS ON THE FINANCIAL STATEMENTS

1. Composition of MRBIP and basis of financial reporting

The financial statements are applicable to those Missouri River Basin projects of the Bureau of Reclamation and Corps of Engineers which have power as one of the project purposes and for which the Bureau markets the power. The projects in service at June 30, 1969, are listed in exhibit C. Although these projects are not recognized as a separate legal entity, they are integrated for power operations. The financial statements are based on data recorded in the Bureau and Corps accounts, partly on the cost basis. Adjustments were made for year-end intransit transactions and for interproject and intraproject transactions.

2. Classification of completed plant costs

The Bureau of Reclamation identified completed plant costs on its financial statements under the classification of the purpose served, and only those plant costs serving more than one purpose were classified as multiple-purpose plant costs.

The Corps of Engineers identified all plant costs as multiple-purpose plant costs. To provide a presentation consistent with the Bureau, the Corps plant costs were reclassified to the purposes served, as identified in Corps subsidiary records.

3. Plant costs not included in agencies' financial statements

Completed plant costs do not include $7,500,000 paid by the Bureau of Indian Affairs for land and land-right acquisitions on the Corps Garrison Project and $2,592,622 paid by the U.S. Treasury as additional compensation to the Crow Tribe of Indians for the Bureau's Yellowtail dam and reservoir site.

In addition, investigation and survey costs incurred prior to project authorization by the Congress were not included in plant costs by the Corps. The Bureau did include such costs.

4. Depreciation

The Bureau and the Corps have adopted the compound-interest method for depreciating plant-in-service costs. The Corps depreciates all plant-in-service costs, whether reimbursable or nonreimbursable. The Bureau depreciates only electric plant and multiple-purpose plant costs allocated to power. The accumulated depreciation recorded on the financial statement of the Corps as of June 30, 1969, includes approximately $20 million applicable to facilities for which depreciation would not be recorded on the basis of the practice followed by the Bureau.

Both the Bureau and the Corps depreciate furniture and equipment, but the Bureau computes depreciation on the basis of the straight-line method and the Corps on the basis of the compound-interest method.

Until fiscal year 1967 the Corps depreciated plant-in-service costs on the basis of the straight-line method. In fiscal year 1967 the Corps converted to the compound-interest method of depreciation and reduced the accumulated depreciation by $41,204,718.

The Bureau did not adopt depreciation accounting until fiscal year 1963, except for its construction facilities, movable equipment in plant-in-service accounts, and certain other equipment. At that time the Bureau began depreciating power facilities using the straight-line method. In fiscal year 1966 the Bureau converted to the compound-interest method of depreciation and reduced the accumulated depreciation by $12,338,697.

Under the compound-interest method of computing depreciation, the annual provisions increase each year during the depreciable life of the asset; under the straight-line method of computing depreciation, equal annual amounts are provided for depreciation. Therefore, under the straight-line method of computing depreciation, the combined amount for depreciation and interest on the unrepaid investment in plants is high during the early life of the asset and decreases as repayments of the investment are made. Under the compound-interest method, the combined amount for depreciation and interest tends to be about the same each year because the increases in depreciation are offset by decreases in interest on the investment.

5. Investments

The entire amount of the investments represents the acquisition cost of the water users' interest in the future power revenues of the North Platte Project as authorized by Public Law 578, 82d Congress.

6. Deferred and unmatured receivables

Rehabilitation and betterment work costing $6,558,915, initially recorded as irrigation plant-in-service costs for the North Platte Project, was reclassified as deferred maintenance on June 30, 1966. The Bureau justified this action on the basis that it was almost impossible to determine what portion of the work should be classified as plant additions. Its explanation for the transfer, however, did state that, if it was later determined that any portion of the work was considered as additions to plants, with no corresponding retirement, the cost would be capitalized as irrigation plant cost.

As of June 30, 1969, the Bureau had not directed any effort toward determining what portion of the rehabilitation and betterment work was actually for plant additions.

7. Interest during construction and interest on investment

The Bureau and the Corps, with some exceptions, compute and record interest on investment both during the construction of facilities and after the construction has been completed; however, different criteria and procedures are used by the agencies. The differences and their effects on the statements of assets and liabilities are as follows:

a. The Bureau computes interest during construction (IDC) on power and municipal and industrial water facilities. The Corps computes IDC on all facilities under construction. Its completed plant-in-service costs as of June 30, 1969, therefore included over $44.5 million of interest costs which would not be recorded on the basis of the practice followed by the Bureau.

b. The Bureau accumulates IDC through the end of the fiscal year during which the facilities become revenue producing. The Corps accumulates IDC through the end of the month during which the facilities become ready to serve their project purpose. Thus the Corps terminated the capitalization of IDC for all irrigation facilities by August 1964 when they were ready to serve, although none of the Corps irrigation facilities are revenue producing. Also the Corps capitalized IDC applicable to purposes other than power only until the last power unit of each project was installed and ready to serve.

c. The Corps used a 2-1/2-percent interest rate for computing IDC and interest on investment. The Bureau computed IDC and interest on investment at various rates depending on legislative authority and the Bureau's interpretation of such authority. The Bureau computed IDC for its Fort Peck project in the amount of $516,840 for the purpose of rate and repayment studies but did not record the amount in the accounts. The Department advised us that such IDC was recorded in the accounts in fiscal year 1970. Also the Bureau computed and recorded IDC for only one (Colorado-Big Thompson) of the five individually authorized projects, because the Bureau believed that four of the projects were not required to be charged for IDC either by law or by administrative policy established pursuant to law.

d. The Corps power operations deficit does not give effect to over $138 million of power revenues allocated by the Bureau to the Corps through June 30, 1969. These revenues have not been recorded in the Corps accounts and are not considered by the Corps as being reductions of the Federal investments when computing interest costs. As a result interest costs are overstated in the Corps accounts.

8. Headwater benefits income

The Federal Power Commission, by order dated January 15, 1971 (Docket No. E-6467), determined the payment to be made to the United States by Montana Power Company for headwater benefits to that company from the Government's Canyon Ferry project. The Canyon Ferry project contributed to an increase in the power-generating potential at Montana Power Company's generating plant downstream from the Canyon Ferry project. The Commission ordered Montana Power Company, and it agreed, to pay the United States $3 million for such benefits covering the period March 28, 1953, through December 31, 1970, less $290,134 already paid, or $2,709,866. The payment will result in additional income applicable to the MRB Project.

EXHIBITS

BUREAU OF RECLAMATION AND CORPS OF ENGINEERS (CIVIL FUNCTIONS)

MISSOURI RIVER BASIN INTEGRATED PROJECTS

RECONCILIATION OF TOTAL REVENUE AVAILABLE

FOR REPAYMENT OF INVESTMENT

WITH CUMULATIVE EXCESS OF INCOME OVER EXPENSE

JUNE 30, 1969

		Total
Cumulative excess of power income over expense (sch. 2)		$-27,137,429
Add:		
Net change in reserve for depreciation	$49,583,841	
Net overstatement in Corps interest expense (note a)	58,307,947	
Contributions not included in operating statements as revenue (note b)	389,544	
Prior-year adjustments by Corps not recognized by Bureau (note c)	1,502,214	
Other (note d)	3,913,813	113,697,359
Total revenue available for repayment of investment (exhibit B)		$ 86,559,930

[a] The Corps accounts included interest expense computed on a Federal investment which had not been reduced for power revenues allocated by the Bureau for repayment on such investment. This resulted in an overstatement of interest expense in the Corps accounts. Also the Corps accounts included interest expense computed at 2-1/2 percent, but, for the period prior to July 1, 1965, the interest expense in the Bureau's power system average rate and repayment studies on the Federal investment in Corps projects was computed at 3 percent. This resulted in an understatement of interest expense in the Corps accounts. The net effect of these two differences was that interest expense recorded in the Corps accounts exceeded that included in the average rate and repayment studies by $58,307,947 as of June 30, 1969.

[b] Contributions were not included in the power operating statement as revenues but were included as revenues in the average rate and repayment studies.

[c] See p. 21.

[d] Includes miscellaneous adjustments and power revenues of the North Platte project water users that were used to finance capital additions and betterments prior to the time the Bureau acquired rights to such power revenues. The capitalized items paid for by the water users are included in the total investment reported in the average rate and repayment studies, but the revenues used to finance such investment are not included in the power operating statement.

BUREAU OF RECLAMATION AND CORPS OF ENGINEERS (CIVIL FUNCTIONS)

MISSOURI RIVER BASIN INTEGRATED PROJECTS

STATUS OF REPAYMENT BASED ON COMPOUND-INTEREST AND ON STRAIGHT-LINE

AMORTIZATION OF COMMERCIAL POWER INVESTMENT OVER 50-YEAR PERIOD

JUNE 30, 1969

	MRB Project
COMPUTATION OF AVAILABILITY FOR REPAYMENT OF COMMERCIAL POWER INVESTMENT (note a):	
Operating revenues	$497,231,709
Revenue deductions:	
O&M expense	129,910,889
Purchased power	15,972,905
Net retirements	5,502,141
Interest expense	225,949,094
Revenue distribution to individually authorized projects	81,705,854
Other	-
Total revenue deductions	459,040,883
Total	38,190,826
Add depreciation accruals included in O&M expense	1,496,896
Total available for repayment of investment	$ 39,687,722
APPLICATION OF AVAILABILITY TO REPAYMENT OF COMMERCIAL POWER INVESTMENT:	
Commercial power investment at June 30, 1969	$890,467,416
Compound-interest amortization requirements at June 30, 1969	$104,434,380
Straight-line amortization requirements at June 30, 1969	179,297,362
Application of repayment availability	39,687,722
Repayment surplus or deficit(-):	
Based on compound-interest amortization	-64,746,658
Based on straight-line amortization	-$139,609,640

[a] Data for this computation was taken from the average rate and repayment studies prepared by the Bureau for the projects.

[b] About $5 million of revenue was applied to repayment of investment other than power--primarily irrigation.

EXHIBIT B

Individual authorized projects					
Colorado-Big Thompson	North Platte	Kendrick	Riverton	Shoshone	Total
$65,821,241	$14,703,416	$25,044,531	$3,221,961	$9,454,181	$615,477,039
13,572,950	4,703,088	6,557,968	2,071,019	3,280,312	160,096,226
1,875,809	3,315,066	1,211,067	344,192	81,720	22,800,759
2,138,547	596,234	965,057	121,401	365,605	9,688,985
23,429,768	-	6,140,853	2,932	269,630	255,792,277
-	-	-	-	-	81,705,854
98,715	-	-	-	777,664	876,379
41,115,789	8,614,388	14,874,945	2,539,544	4,774,931	530,960,480
24,705,452	6,089,028	10,169,586	682,417	4,679,250	84,516,559
546,475	-	-	-	-	2,043,371
$25,251,927	$ 6,089,028	$10,169,586	$ 682,417	$4,679,250	$ 86,559,930[b]
$60,627,395	$ 1,783,649	$16,937,477	$ 453,169	$4,297,101	$974,566,207
$12,250,507	$ 775,289	$ 4,443,401	$ 177,380	$1,323,655	$123,404,612
22,119,368	1,783,649	7,049,035	285,677	2,286,141	212,821,232
25,251,927	1,783,649	10,169,586	453,169	4,297,101	81,643,154
13,001,420	1,008,360	5,726,185	275,789	2,973,446	–41,761,458
$ 3,132,559	$ -	$ 3,120,551	$ 167,492	$2,010,960	–$131,178,078

BEST DOCUMENT AVAILABLE

EXHIBIT C

BUREAU OF RECLAMATION AND CORPS OF ENGINEERS (CIVIL FUNCTIONS)

MISSOURI RIVER BASIN INTEGRATED PROJECTS

OPERATING POWER UNITS AND INSTALLED CAPACITY

JUNE 30, 1969

Name of project and operating agency	Initial operation of First unit	Initial operation of Last unit	Number of operating units	Installed capacity (kilowatts)
MISSOURI RIVER BASIN PROJECT:				
Bureau of Reclamation:				
Kortes	1950	1951	3	36,000
Boysen	1952	1952	2	15,000
Canyon Ferry	1953	1954	3	50,000
Glendo	1958	1959	2	24,000
Fremont Canyon	1960	1961	2	48,000
Yellowtail	1966	1966	4	250,000
			16	423,000
Corps of Engineers:				
Fort Peck	1943	1961	5	165,000
Fort Randall	1954	1956	8	320,000
Gavins Point	1956	1957	3	100,000
Garrison	1956	1960	5	400,000
Oahe	1962	1963	7	595,000
Big Bend	1964	1966	8	468,000
			36	2,048,000
Total MRB Project			52	2,471,000
INDIVIDUALLY AUTHORIZED PROJECTS:				
Bureau of Reclamation:				
Shoshone project:				
Shoshone	1922	1931	3	6,012
Heart Mountain	1948	-	1	5,000
Riverton project:				
Pilot Butte	1925	1929	2	1,600
North Platte project:				
Guernsey	1927	1928	2	4,800
Kendrick project:				
Seminde	1939	1939	3	32,400
Alcova	1955	1955	2	36,000
Colorado-Big Thompson:				
Green Mountain	1943	1943	2	21,600
Estes	1950	1950	3	45,000
Marys Lake	1951	-	1	8,100
Pole Hill	1954	-	1	33,250
Flatiron	1954	1954	3	71,500
Big Thompson	1959	-	1	4,500
Total individually authorized projects			24	269,762
Total MRBIP			76	2,740,762

APPENDIXES

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

June 24, 1971

Dear Mr. Hirschhorn:

We have reviewed the General Accounting Office draft report, entitled, "Examination of Financial Activities of the Federal Hydroelectric System in the Missouri River Basin." As a general comment concerning the substance of your draft report, we believe it is important to stress our view that there are significant differences of principle applicable to payout accounting and cost accounting in that payout accounting takes into consideration intent of the Congress as manifested by project authorization legislation or long accepted administrative practice established pursuant to such project or other correlative substantive legislation. We believe that the general observation should be helpful in understanding our more specific comments which follow concerning matters contained in sections of your draft report.

Status of Repayment of Reimbursable Costs from Power Revenues

[See GAO note.]

Also, GAO computations of annual repayment requirements over a 50-year period, using a straight-line amortization method show that at June 30, 1969, actual repayment of the commercial power investment was deficient in the MRB Project by $139.6 million and in the MRBIP by $131.2 million. GAO also estimates that, on a sinking fund method of amortization, this repayment deficiency for the MRBIP would have been $51 million, rather than $131.2 million. We will assume the accuracy of your amortization calculations under methods which differ from procedures authorized for the Bureau.

[See GAO note.]

GAO note: The deleted comments relate to matters which were discussed in the draft report but omitted from this final report.

[See GAO note, p. 47.]

Actual Repayment Compared to Straight-line Amortization of Investment

The matter of how the repayment of the investment in power facilities should be scheduled has been the subject of many GAO reports on activities of this Department, and has been considered by the Congress on many occasions. Discussions on this point have ranged over several methods, including the current Bureau method of rescheduling unpaid investment over the remaining repayment period; straight-line; compound interest (sinking fund), etc. All such discussions have considered the concept of full disclosure of operating results to: (1) management, (2) the Congress, (3) the GAO, and (4) the general public.

Our position continues to be that management's responsibility is to repay project costs in terms of the intent of the Congress in authorizing or reauthorizing the project, and that repayment schedules geared to specific authorizations of the Congress associated with these projects are most meaningful in terms of disclosure to the majority of interested parties.

In the case of the MRB Project, Public Law 89-108, and the legislative intent thereof, generally determine repayment requirements. That legislation followed exhaustive studies of the MRB financial problems, intensive briefing of the Congress, and a report which is the basis for all repayment and financial policy in the MRB.

The report correctly notes that reimbursable costs are not required to be recovered on a straight-line basis, and that power rates are not necessarily inadequate because repayment requirements are not met on such a basis. Notwithstanding those facts, GAO suggests that useful disclosures to management would result from preparation of annual repayment studies on a straight-line or compound interest basis, as opposed to the Bureau's current method geared to project authorization.

There are several questions to be examined on this score. First, we are of the view that the Bureau should continue to prepare repayment schedules geared foremost to specific project authorizations and administrative practice established pursuant to related law and long accepted by the Congress. Accepting this premise, your suggestion would involve us with a matter of additional scheduling, the interpretation of which may or may not be useful to management.

Consider the MRB Project for the period 1954-1961, in terms of straight-line amortization. This was the period when the reservoirs were being filled and there was not a single year in which the streamflow attained the 60-year average. It was stated during the hearing held March 29, 1965, on S. 34 (Garrison Diversion Unit) that this factor and delays in the installation of power generating equipment reduced power production and system revenue by more than $100 million below the amount that would have been available if the system had enjoyed normal water conditions and progressed as initially scheduled.

Factors such as this have tremendous effect upon repayment results portrayed on a straight-line basis during the early years of a project when interest costs are high. There would be less impact, of course, in the early years under a compound interest method of amortization. The Bureau method, however, reschedules all costs for repayment over the remaining project period. The results of such scheduling become the bases for Executive Branch management decisions and related Congressional deliberations. Payout accounting and reporting consistent with these decisions and deliberations is realistic in the sense that the payout principles have been tested in and established from the crucible of serious and intensive interest of the Congress.

Costs Not Properly Considered in Ascertaining Repayment Deficiency

The Corps of Engineers' annual FPC Form 1 reports (a report is prepared for each of its six storage projects) are used for development of the Corps' investment and operating costs in preparing the MRBP Average Rate and Repayment Study. These reports, prior to FY 1964, did not include an accounting within the balance sheet of the accumulated net operating cost recoveries. The GAO, in the course of its audit, reconstructed by a working paper analysis, a statement in support of the accrued June 30, 1969, net operating cost recovery account balance. A copy of this working paper was used in making the $1,502,027 adjustment of the Corps' net revenues in the June 30, 1970, A.R.&R.S. This adjustment consisted of an increase in the Corps' Operating Revenues of $183,544, an increase in all other O&M of $721,762, and an increase in the Provision for Depreciation of $963,809, all representing prior year adjustments made in its records in the years prior to FY 1964. These omissions did not result from an oversight, as implied in the audit report, but because of incomplete reporting in the FPC Form 1 reports prior to FY 1964.

Recommendations to the Secretary of the Interior

The Department agrees that the Bureau should give consideration to the practicability of publishing a rate and repayment study for the MRB which shows the current status of repayment, in terms appropriately consistent with financial feasibility representations to the Congress and which formed the underlying bases for authorization of the Project, and projections of future repayment. Such a study would also be useful in evaluating the sufficiency of the current rate structures.

At the present time, we are unable to agree with your suggestion regarding use of the straight-line or compound interest methods of amortization, as opposed to the Bureau's current scheduling method geared to total project repayment requirements.

Allocations of Joint Expenses of Operations

We are of the opinion that a new allocation of joint O&M expenses should be instigated without delay to recognize current conditions, to insure a more equitable allocation of facilities costs to project beneficiaries, and to have an allocation of costs of the mainstem dams and reservoirs that would be acceptable to both the Corps and the Bureau. Procedures for advising the Corps annually of uses made by the Bureau of water available from its facilities will be needed.

A committee consisting of representatives from the Corps and the Bureau has been appointed to study this matter and make recommendations.

[See GAO note, p. 47.]

Interest on Federal Investment

We concur with the recommendation that the Corps' record in its accounts the revenue allocated by the Bureau for repayment of the Corps' expenses and investment. Procedures for the transfer of these revenues will, we believe, be formalized.

Bureau procedures provide for the computation of interest during construction to the close of the fiscal year in which a facility reaches the revenue-producing stage with interest on the investment to begin on the first day of the following year. Thus, interest is computed on a continuing basis for all construction whether new or additions. Interest is not computed on replacement costs financed from O&M funds. The procedure as proposed in the report of terminating interest during construction at the end of the month that the facility becomes revenue producing, and beginning interest on investment on the first of the succeeding month, is a refinement requiring more computations and bookkeeping transactions, which, in our opinion, is not offset by equal improvements in the accuracy of payout projections. Interest during construction has been returned to the Fort Peck Project accounts in FY 1970.

[See GAO note, p. 47.]

Provisions for Depreciation of Facilities

We concur that a uniform practice in the computation of depreciation for the Bureau and the Corps would be desirable. We will pursue the feasibility of developing such uniform procedures.

Agreement Not Reached on Allocating Power Revenues

Prior to fiscal year 1966, power revenues of the MRB Project were insufficient to cover total operating costs including O&M interest and replacements. There were no net revenues available for allocating between the Bureau and the Corps based on power generation as implied in the audit report.

We have, through June 30, 1970, deposited within the Missouri River Basin and Fort Peck Project accounts to power revenue receipt accounts, under general funds of the Treasury, sufficient credits to cover the Corps' accumulated operating interest and replacement expenses totaling $192,627,396 as developed for the Average Rate and Repayment Study presentation. The Corps' actual power operating and replacement expenses have been used in the development of this information with interest computed on the Corps' allocation of investment to the power function. We have no objection to the transfer of these revenues to the Corps' accounts. Agreement must be reached on a uniform basis for computation of interest to insure that revenues transferred will offset interest expenses as computed by the Corps.

Since 1966, the first year that revenues exceeded operating costs, excess revenues have been fully applied to pay the high interest (three percent) investment. We propose to continue this procedure so long as we can demonstrate that we will thus meet the 50-year payout period for each power facility and the intent of the financial study approved by the Congress under P.L. 89-108.

We believe the Bureau's current practice of allocating revenue is equitable and in accordance with that study. It also conforms with the practice of at least one other Federal agency. The Bonneville Power Administration currently allocates revenues among its projects so as to repay higher interest rate projects first and in such a manner that repayment is made within the 50-year period required by law.

The Bureau has paid from power revenues sufficient amounts to cover the Bureau and Corps interest, operating and replacement costs as suggested in the report. We disagree that remaining revenues must be prorated, reducing the allocated investment to power of both agencies. The revenues received in excess of the interest, operating and replacement costs, most logically should be applied to the principal bearing the highest interest rate. The example given as a comparable plan for proration is the Corps and Southwestern Power Administration. In this situation both agencies have the same interest rate and thus prorated payments to the principal is logical.

Costs Not Recorded in Project Accounts

[See GAO note, p. 47.]

The costs of space rentals, furnished without charge by the General Services Administration, are now being recorded in the accounts.

Need for the Preparation of Consolidated Finance Statements

We agree that an annual consolidated financial statement for the Federal hydroelectric operations in the Missouri River Basin should be prepared. In developing procedures for such reporting, consideration will be given to incorporating the Fort Peck Project and the power facilities of the integrated projects into the Bureau's Pick-Sloan Missouri Basin Program.

A committee, including Bureau and Corps representation, has been appointed at the regional level to study the financial reporting problems. Much of their work will depend upon decisions pertinent to cost allocations and accounting policies discussed heretofore.

Sincerely yours,

J. W. Hall, Jr.

Director of Survey and Review

Mr. Max Hirschhorn
Associate Director
Civil Division
U.S. General Accounting Office
Washington, D.C. 20548

BEST DOCUMENT AVAILABLE

DEPARTMENT OF THE ARMY
WASHINGTON, D.C. 20310

29 MAR 1971

Mr. C. M. Bailey
Director, Defense Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Bailey:

Reference is made to your letter to the Secretary of Defense, dated 30 December 1970 inclosing copies of a proposed report to the Congress entitled "Examination of Financial Activities of the Federal Hydroelectric System in the Missouri River Basin" (OSD Case #3224).

The report indicates that the financial statements do not present fairly the financial position or the financial results of operations of the MRBIP. Report findings and recommendations pertaining to rate and repayment schedules and the status of repayment of costs allocated to the commercial power operation do not pertain to responsibilities of the Corps of Engineers and, accordingly, no comment is made thereon. The more important of the other matters discussed in the report for which the Corps of Engineers has a responsibility pertain to differences and deficiencies in cost accounting policies and procedures, exclusion from Corps of Engineers accounts of power revenues allocated by the Bureau of Reclamation, and exclusion from project accounts of certain administrative ***[1] costs.

The need for comparable and consistently applied accounting policies and practices has existed for some time. It is recognized, however, that problems of this nature are not unique to the Bureau of Reclamation and Corps of Engineers but are of concern to other Federal agencies involved in water resources developments. In view of this, the Corps in the past has attempted to resolve such matters through established interagency channels. Accordingly, the Corps proposes to resume its efforts with the Bureau of Reclamation and the Department of the Interior to develop mutually acceptable accounting policies and practices. A meeting is being planned for the latter part of this month as a first step toward resolving existing differences and deficiencies. The Corps also proposes to concurrently examine the accounting differences and deficiencies noted in the report

[1]GAO note: The deleted comments relate to matters which were discussed in the draft report but omitted from this final report.

which are largely internal in nature with a view to making such adjustments as are deemed appropriate in advance of any interagency agreement. Your office will be advised when mutually acceptable policies and implementing procedures are developed.

[See GAO note, p. 55.]

The Corps of Engineers method of depreciating vehicles, office furniture, and miscellaneous permanent operating equipment is consistent with the Corps of Engineers uniform list of property and replacement items, and compound-interest depreciation procedures. These systems were developed in coordination with and accepted or approved by the GAO. The Corps uniform list of property and replacement items was accepted by GAO representatives at the meeting of 23 February 1966 referred to above. In addition, the Corps compound-interest depreciation procedures are consistent with views in the letter from the Assistant Director, Civil Division, GAO to the Engineer Comptroller, dated 30 November 1966.

With regard to the treatment of imputed rent-free space costs, reference is made to the draft GAO report on an examination of financial statements of Columbia River Federal Power System for FY 1965. Comments on this report stated that the agencies for space rentals and audit services amount to less than one-half of one percent of total Corps costs. Therefore, such costs are not considered to be of sufficient magnitude to justify their inclusion in project accounts. This conclusion is consistent with standards embodied in the Title 2 of the GAO Policy and Procedures Manual for Guidance of Federal Agencies.

Although it is intended that all matters discussed in the report will be subjects for interagency consideration it appears that clarification of the GAO views on these matters is highly desirable. Accordingly, it is suggested that arrangements be made for a meeting between Corps and GAO representatives to discuss resolution of the differences cited.

The opportunity to review the draft report is appreciated.

Sincerely,

Robert E. Jordan, III
Special Assistant to the Secretary of the Army
(Civil Functions)

FEDERAL POWER COMMISSION
WASHINGTON, D.C. 20426

FEB 25 1971

Mr. Allen R. Voss
Associate Director
United States General Accounting
Office
441 G Street, N. W.
Washington, D. C. 20548

Dear Mr. Voss:

Chairman Nassikas has forwarded to this office for reply your request of December 30, 1970, to review the draft report to Congress entitled "Examination of Financial Activities of The Federal Hydroelectric System In the Missouri River Basin."

We concur with the draft report comments regarding the desirability of resolving differences between the accounting and financial practices of the two Federal agencies which carry out electric power activities in the Missouri River Basin.

There are a number of accounting procedures described in your report that seem to be inconsistent with our Uniform System of Accounts for public utilities. For example:

1. On page 18, item 3, you express the belief that interest during operations should be charged from the first of the month succeeding the date that reimbursable facilities reach the revenue producing stage. While not stated, the

GAO note: The deleted comments relate to matters which were discussed in the draft report but omitted from this final report.

Mr. Allen R. Voss

implication is that until that time interest during construction should be capitalized. Under our Uniform System of Accounts, interest during construction may be capitalized only until such time as the facilities are ready for service, at which time the amounts are transferred to plant in service from construction work in progress. There may be a period between the time the facilities are ready for service and revenue producing.

[See GAO note, p. 58.]

3. On page 20, item 3, the varying depreciation methods used by the Bureau and Corps for vehicles, office furniture, and equipment are discussed and you express the belief that a consistent depreciation method should be used. While the Commission's Uniform System of Accounts requires depreciation accounting, as distinguished from other methods of accounting for the consumption of economic value of property, it does not specify any particular method of depreciation which must be followed nor has the Commission prescribed any depreciation rates of general application. However, the straight-line group method of depreciation is generally believed to be the most suitable for utility property and such method is followed by the predominent number of utilities. Decision of this Commission in the Safe Harbor Water Power Corporation rate case (5 FPC 257), indicated that the Commission favors the straight-line method.

Mr. Allen R. Voss

Our Uniform System reflects various laws, regulations and ratemaking concepts applicable to regulated companies. Because of our limited knowledge of the pertinent laws, regulations and rate making concepts applicable to Bureau and Corps projects in the Missouri River Basin, we are not in a position to comment on whether the apparent variations from our Uniform System of Accounts really represent material departures from the basic principles underlying our System.

We have enclosed a copy of Commission Order dated January 15, 1971, Docket No. E-6467, which relates to the headwater benefits discussed in item 9 on page 38 of your draft report.

We thank you for the opportunity to review your draft report since we have a definite interest in the accounting followed by Governmental agencies in the utility field.

Sincerely yours,

Arthur L. Litke
Chief Accountant

Enclosure [See GAO note.]

GAO note: The enclosure is not included in this report, but the substance of the enclosure is shown in footnote 8 to the financial statements.

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF THE INTERIOR AND THE DEPARTMENT OF THE ARMY RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF THE INTERIOR		
SECRETARY OF THE INTERIOR:		
Stewart L. Udall	Jan. 1961	Jan. 1969
Walter J. Hickel	Jan. 1969	Nov. 1970
Fred J. Russell (acting)	Nov. 1970	Dec. 1970
Rogers C.B. Morton	Jan. 1971	Present
ASSISTANT SECRETARY--WATER AND POWER RESOURCES:		
Kenneth Holum	Jan. 1961	Jan. 1969
James R. Smith	Mar. 1969	Present
COMMISSIONER OF RECLAMATION:		
Floyd E. Dominy	May 1959	Oct. 1969
Ellis L. Armstrong	Nov. 1969	Present
DEPARTMENT OF THE ARMY		
SECRETARY OF THE ARMY:		
Elvis J. Stahr, Jr.	Jan. 1961	June 1962
Cyrus R. Vance	July 1962	Jan. 1964
Stephen Ailes	Jan. 1964	July 1965
Stanley R. Resor	July 1965	June 1971
Robert F. Froehlke	July 1971	Present
CHIEF OF ENGINEERS:		
Lt. Gen. Walter K. Wilson, Jr.	May 1961	June 1965
Lt. Gen. William F. Cassidy	July 1965	Aug. 1969
Lt. Gen. Frederick J. Clarke	Aug. 1969	Present

U.S. GAO, Wash., D.C.

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