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UNITED STATES GENERAL ACCOUNTING OFFICE  
 REGIONAL OFFICE  
 ROOM 201 415 FIRST AVENUE NORTH  
 SEATTLE, WASHINGTON 98109

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MAR 9 1977

Mr. Rodney J. Vissia  
 Bureau of Reclamation  
 Department of the Interior  
 Box 43, 550 West Fort Street  
 Boise, Idaho 83702

Dear Mr. Vissia:

We have completed our review of the Bureau of Reclamation project financial statements for the fiscal year ended June 30, 1976. The purpose of our review was to determine the reasonableness and propriety of the project financial statements submitted to the Bonneville Power Administration (BPA) for inclusion in the 1976 Federal Columbia River Power System (FCRPS) consolidated statements. We included such tests of accounting records, financial procedures, and controls as we considered necessary in the circumstances

We are pleased to report that the procedures and controls were generally found to be adequate. However, we found five items which resulted in corrections to the project financial statements. In addition, we believe there is an opportunity to improve the management of shop stocks. Minor matters noted during our review were discussed and resolved with your staff and are not described in this letter.

CHANGES REQUIRED TO THE  
 FINANCIAL STATEMENTS

The five items requiring changes to the financial statements involved construction work in progress, contractor holdback payments held in escrow, contingent liabilities, interest during construction, and unexpended funds

1. The Teton Project construction work in progress was reported on the Statement of Assets and Liabilities under fixed assets. On June 5, 1976, prior to being classified as in service, the Teton Dam failed. For financial statement purposes, the \$13,089,776 of construction work in progress allocated to power as of June 30, 1976, was reclassified as a deferred charge pending final determination of the future of the project. Bureau officials agreed to the reclassification as a deferred charge.

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- 2 The Bureau holdback of contractor earnings held in escrow accounts was not reported on the Statement of Assets and Liabilities for the Columbia Basin and Teton Projects in the amounts of \$595,022 and \$78,656, respectively. The result was an understatement of assets and liabilities by a total of \$673,678.

This matter was first brought to your attention during our fiscal year 1975 audit. The Bureau's Accounting Manual was revised as the result of our audit and the accounts necessary to record the contractor holdback held in escrow were established. However, the manual change was to be effective beginning with fiscal year 1977. Therefore, the fiscal year 1976 financial statements for the Columbia Basin and Teton Projects were adjusted to record the balance of contractor holdback held in escrow accounts as of June 30, 1976.

Bureau officials agreed to the adjustments for these projects.

3. A contingent liability for \$1,271,790 relating to the Boise Project had not been reported for fiscal year 1976.

Bureau officials adjusted the financial statement to reflect this contingent liability.

4. The interest during construction (IDC) for the Teton Project was understated by \$5,300 because the IDC was computed on costs as of May 30 rather than June 30, 1976.

Bureau officials agreed that the IDC should be computed on project costs through June 30, 1976. The Teton Project financial statements were revised to reflect the correct amount of IDC.

5. An incorrect unexpended fund balance for the Hungry Horse Project was used in allocating unexpended funds between power and flood control. As a result, unexpended funds allocated to power were overstated by \$21,000.

Bureau officials agreed to revise the financial statements for this project to reflect the proper amount of unexpended funds.

#### OTHER MATTERS

In our fiscal year 1975 audit, we reported on an opportunity for improving the method of accounting for and managing shop stocks. At that time, Bureau officials stated that plans had been made to control project shop stock inventories, whether large or small, using a computerized system.

During our fiscal year 1976 audit, Bureau officials advised us that shop stocks continue to be managed without receipt and issue control because Bureau instructions allow this procedure for project shop stock inventories totaling less than \$10,000. However, an inventory has not been taken since 1969, and Bureau officials advised us that plans to control shop stock inventories at all projects are still tentative.

We continue to believe that more intensive financial management is especially needed for the larger inventories in order to provide proper cost accounting and adequate inventory control

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

We wish to express our appreciation to you and your staff for the courtesy and cooperation received during this review. Receipt of your ~~comments~~ and advice on the matters discussed above would be appreciated.

Sincerely yours,

A handwritten signature in cursive script that reads "John P. Carroll". The signature is written in dark ink and is positioned above the typed name.

John P. Carroll  
Regional Manager