



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

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JULY 1, 1982

The Honorable James G. Watt  
The Secretary of the Interior

The Honorable John O. Marsh, Jr.  
The Secretary of the Army



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Subject: Procedures Needed To Ensure That Irrigation  
Operation and Maintenance Costs Are Recovered  
at a Jointly Managed Facility  
(GAO/CED-82-107)

During our ongoing review of the operation and maintenance (O&M) cost recovery systems established by the U.S. Army Corps of Engineers and the Department of the Interior's Bureau of Reclamation for water resources projects, we identified a problem that warrants your attention. Although we plan an overall report on our review, we are presenting the subject issue now so as not to delay your consideration of corrective action.

For more than two decades, neither the Corps nor Reclamation has collected all the O&M costs due the Federal Government from irrigators using Nebraska's Harlan County Dam and Reservoir water storage space. These unrecovered costs, which now total about \$962,000, are for O&M costs incurred by the Corps. For fiscal year 1981 alone, reimbursable O&M costs due on the Harlan County facility amounted to about \$117,000. Federal law, Corps and Reclamation policies, and the Harlan County facility's water sales contracts between the Federal Government and the irrigators all require recovery of these O&M costs.

Since the Corps operates and maintains the Harlan County facility and Reclamation administers the water sales contracts with the irrigators, both agencies are responsible for recovering O&M costs. However, no procedures exist requiring the Corps to notify Reclamation of these costs and Reclamation to include them in its annual charges to irrigators.

While such procedures will help provide for the recovery of future O&M irrigation costs, they will not effect recovery of past Harlan County Dam and Reservoir irrigation O&M costs incurred and unrecovered, which now approach \$1 million. Reclamation and the Corps need to determine the extent to which these past costs can be recovered and take appropriate action.

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Since joint Corps and Reclamation management of Federal water projects is fairly common in the 17 Western States and no procedures exist on how irrigation O&M costs are to be recovered at such facilities, the agencies have no assurance that such costs are being recovered.

The objective of our Harlan County facility review was to determine whether all reimbursable O&M costs were being recovered by the Corps and Reclamation. We reviewed applicable laws; analyzed Corps and Reclamation policies, procedures, and records on the Harlan County Dam and Reservoir; examined the project's water sales contracts and correspondence; and analyzed the basis used by the Corps to determine the project's O&M costs. We also spoke with Reclamation officials in McCook, Nebraska; Denver, Colorado; and Washington, D.C., and with Corps officials in Omaha, Nebraska; Kansas City, Missouri; and Washington, D.C. The review was made in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

#### FACILITY PURPOSE AND WATER MARKETING OPERATION

The Harlan County Dam and Reservoir is located on the Republican River in south-central Nebraska, just above the Kansas-Nebraska border. The Corps built the facility under authority of the Flood Control Act of 1941 and the Flood Control Act of 1944 (43 U.S.C. 390). When the Corps placed the reservoir in service in 1952, about 830,000 acre-feet of water storage capacity became available for use.

The Congress authorized the construction of the Harlan County facility for two purposes--flood control, whose O&M costs are not reimbursable, and irrigation, whose O&M costs are reimbursable. Since 1952, the facility has served both purposes: it stores water during periods of heavy runoff to control flooding and releases water during periods of low runoff for use by downstream irrigators.

Although the Corps operates and maintains the facility, Reclamation markets the water to downstream irrigators. Reclamation administers the water sales contracts between the Federal Government and the irrigators and assures that water is delivered to the irrigators. In performing these tasks, Reclamation incurs administrative costs for such items as scheduling water deliveries and general contract administration. These costs are annually reimbursed by the irrigators and vary from year to year, depending on Reclamation's estimate of its allocated administrative costs.

#### PROCEDURES NEEDED TO ENSURE RECOVERY OF O&M COSTS

Although the Corps annually allocates a share of the Harlan County facility's O&M costs to irrigation, neither the Corps nor Reclamation recovers these costs from water users as required.

Federal law, Corps and Reclamation policies, the Harlan County Dam and Reservoir irrigation system's planning document, and the water sales contracts between the Federal Government and the facility's irrigators all require that O&M costs be recovered. For example, the Reclamation Act (43 U.S.C. 485h(e)) states that each contract's rate must "\* \* \* produce revenues at least sufficient to cover an appropriate share of the annual operation and maintenance cost \* \* \*." Although the water sales contracts require that all reimbursable O&M costs be recovered, the contracts do not specify the exact amount owed. The agencies are to determine the amount.

In July 1959 the Corps completed its O&M cost allocation for the Harlan County Dam and Reservoir. That cost allocation divided all joint O&M costs (costs related to supporting more than one purpose) between the facility's purposes of flood control and irrigation. The Corps allocated 84.65 percent of joint O&M costs to flood control and 15.35 percent to irrigation. In fiscal year 1981 the Corps allocated \$646,574 to nonreimbursable flood control and \$117,247 to reimbursable irrigation.

However, the Corps has no procedure requiring it to notify Reclamation of its O&M costs, nor does Reclamation have a procedure requiring it to include these costs in its water billings. Because joint agency management of Federal water projects is fairly common in the 17 Western States, problems similar to those at the Harlan County facility could occur elsewhere.

For the Harlan County facility, we could find no evidence that the Corps had ever notified Reclamation or the irrigators that reimbursements for O&M costs were owed. Also, we could find no evidence that Reclamation had ever requested O&M cost information from the Corps. Reclamation's Chiefs of the Lower Missouri Regional Divisions of Program Coordination and Water and Land Operations were surprised to learn that the Corps each year allocated O&M costs to irrigation.

Consequently, while each year the Corps allocates 15.35 percent of Harlan County's joint O&M costs to irrigation, Reclamation collects revenues from irrigators to recover only its administrative expenses. Neither agency has recovered any of the Corps' O&M costs, which currently total about \$962,000 for the facility. Had this money been collected, it could have been used to repay the Federal Government for Harlan County's irrigation O&M costs.

#### VIEWS OF RESPONSIBLE OFFICIALS

We discussed the issues raised in this report with officials at Corps and Reclamation headquarters, the Corps' Kansas City district office, and Reclamation's McCook and Denver regional offices.

The Corps' Kansas City District Engineer told us that as far as his office could determine, this problem resulted from an oversight and should be corrected. A representative of the Corps headquarters Office of Audit told us that Corps officials in Washington, D.C., could not add to what the Kansas City officials had told us.

Reclamation's Chiefs of the Lower Missouri Regional Divisions of Finance, Program Coordination, and Water and Land Operations were also unable to explain how unrecovered O&M costs were allowed to accumulate for so long. The Chief of Water and Land Operations told us that he believed the absence of a system to recover O&M costs may have been intentional and that such a decision may have been appropriate at the time it was made. However, he could not provide supporting documents that such a decision was made, or its basis. Reclamation's Assistant Commissioners told us that (1) they agreed with our position, (2) the problem would be relatively easy to correct, and (3) our recommendations were consistent with their Denver regional office's recommendations for solving this problem.

#### CONCLUSIONS

While Federal law and agency policy require recovery of irrigation O&M costs, recovering such costs at the Harlan County Dam and Reservoir has not yet begun because there are no procedures on how these costs are to be recovered for jointly managed Federal reservoirs. Until such procedures are established, the agencies have no assurance that O&M costs incurred for the Harlan County Dam and Reservoir, and possibly for other jointly managed Federal reservoirs, will be recovered.

The foundation of an appropriate O&M cost recovery system already exists in that the Corps allocates O&M costs to projects by purpose, Reclamation sells water used for reimbursable purposes, and water sales contracts require O&M irrigation costs to be recovered. What is needed is for the Corps to provide Reclamation with O&M cost data and Reclamation to include these costs in irrigator billings.

While such procedures will help ensure that future O&M irrigation costs are recovered, it will not effect recovery of past Harlan County Dam and Reservoir irrigation O&M costs incurred and unrecovered, which now approach \$1 million. Consequently, the agencies need to determine the extent to which these past costs can be recovered and, if appropriate, take action to recover them.

#### RECOMMENDATIONS

To help ensure that reimbursable irrigation O&M costs are recovered, we recommend that the Secretary of the Army require

the Chief, Corps of Engineers, and the Secretary of the Interior require the Commissioner of Reclamation to:

- Establish procedures specifying how future Harlan County Dam and Reservoir irrigation O&M costs are to be recovered. Corps procedures should require that reimbursable O&M cost information be provided to Reclamation, and Reclamation procedures should require that the cost information provided by the Corps be included in Harlan County facility irrigator charges.
- Seek, to the extent permitted under executed Harlan County Dam and Reservoir water sales contracts, payments from irrigators for past unrecovered irrigation O&M costs.
- Determine the extent to which situations similar to those at the Harlan County facility exist at other Corps-operated and Reclamation-marketed water facilities and adopt procedures to provide for the reimbursement of irrigation O&M costs at such facilities.

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As you know, Section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report. A written statement must also be sent to the House and Senate Committees on Appropriations with an agency's first request for appropriations made more than 60 days after the date of the report.

Copies of this report are being sent to the Director, Office of Management and Budget, and to appropriate congressional committees.



Henry Eschwege  
Director