



Resources, Community, and  
Economic Development Division

B-246507

January 25, 1994

The Honorable Max S. Baucus  
Chairman, Committee on Environment  
and Public Works  
United States Senate

The Honorable George Miller  
Chairman, Committee on Natural Resources  
House of Representatives

The Reclamation Projects Authorization and Adjustment Act of 1992, dated October 30, 1992, authorized, among other things, the completion of the Central Utah Project (CUP). Section 211 of the act requires that not later than 1 year after the date that the Secretary of the Interior declares the project substantially complete,<sup>1</sup> the Comptroller General of the United States shall audit the allocation of the costs of CUP to irrigation, municipal and industrial, and other project purposes and submit a report to the Secretary and to the Congress. The act also requires that the audit be conducted in accordance with regulations that the Comptroller General shall prescribe. In discussing this matter with staff from the House Committee on Natural Resources--the proponent of the act's provisions regarding GAO's audit--GAO was advised that it was not expected to prescribe regulations. Instead, GAO was expected to develop standards for Interior to follow in developing a cost allocation for CUP. This correspondence relates to the development of the standards.

Cost accounting standards dealing with the allocation of costs to project objectives have been published by the Cost Accounting Standards Board, an entity currently existing in the Office of Management and Budget.<sup>2</sup> The cost accounting

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<sup>1</sup>The project is not expected to be substantially complete for several years.

<sup>2</sup>The cost allocation standards are published in title 48 C.F.R., part 9904.

standards published by the Board receive substantial scrutiny before being published as rules and regulations. We believe that the Board's standards provide a sound basis for the allocation of costs and that the CUP's cost allocation procedures should follow these standards. Accordingly, we do not believe that additional standards are needed.

Our role in auditing the CUP cost allocation when the project is completed will be to determine whether the methodology Interior used was based on the Cost Accounting Standards Board's standards and whether the allocation was properly applied by Interior.

Our March 1992 report on how the Bureau of Reclamation applied the cost allocation in another project should be helpful to the agency as it undertakes the cost allocation for CUP.<sup>3</sup> The report discussed the Bureau's difficulties in finalizing a cost allocation for the Central Valley Project (CVP) in California. The Bureau's 1988 draft cost allocation for CVP used the Alternative Justifiable Expenditure method--a variation of the Separable Costs Remaining Benefits method--which are both acceptable cost allocation approaches. However, we found that the Bureau included inappropriate costs and used questionable assumptions in applying the Alternative Justifiable Expenditure method. These errors, as well as other problems, generated numerous public comments and contributed to the delay in completing the cost allocation.

In our 1992 report, we described other cost allocation approaches that avoid these problems, for example, allocating joint costs in direct proportion to the specific costs assigned to each purpose and allocating joint costs among purposes on the basis of use. We recommended that the Bureau use cost allocation approaches for CVP that are more timely and less costly and would avoid the problems identified in the draft cost allocation.

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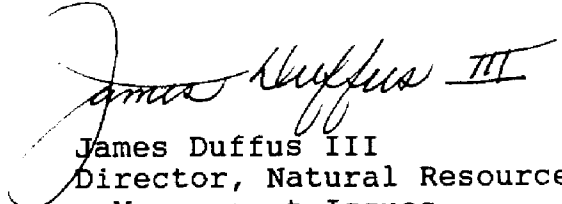
We are sending copies of this correspondence to the Secretary of the Interior; the Commissioner, Bureau of Reclamation; and other interested parties. We will make

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<sup>3</sup>Bureau of Reclamation: Central Valley Project Cost Allocation Overdue and New Method Needed (GAO/RCED-92-74, Mar. 31, 1992).

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copies available to others upon request. If you or your staff have any questions, please contact me on (202) 512-7756.



James Duffus III  
Director, Natural Resources  
Management Issues

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