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UNITED STATES GENERAL ACCOUNTING OFFICE

REGIONAL OFFICE

3086 FEDERAL OFFICE BUILDING, 909 FIRST AVENUE

SEATTLE, WASHINGTON 98104

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JAN 22 1973

Brigadier General Richard E. McConnell  
Division Engineer  
North Pacific Division  
U.S. Army Corps of Engineers  
210 Custom House  
Portland, OR 97209



AGC 00305

Dear General McConnell:

We have completed our review of the accounts and accounting procedures for the Corps of Engineers projects included in the Federal Columbia River Power System (FCRPS) for the fiscal year ended June 30, 1972. Our review, which included an evaluation of administrative procedures and controls, was directed toward determining the reasonableness and propriety of the project financial statements submitted by the North Pacific Division (NPD) to the Bonneville Power Administration (BPA) for consolidation and inclusion in the fiscal year 1972 FCRPS financial statements. The review included a detailed account analysis of Walla Walla District projects and a general analysis of projects in the Portland and Seattle Districts.

Although the administrative procedures and accounting controls generally were adequate, we found several discrepancies which we would like to bring to your attention. The following matters were discussed and informally resolved with District and Division personnel.

1. As noted in our May 5, 1972, letter to your office, relative to our fiscal year 1971 FCRPS audit, the Walla Walla District made several errors in computing interest expense on power plant-in-service. These errors understated interest expense for the Little Goose project by \$1,038,670 and for the Lower Monumental project by \$1,333,503.

In revising the respective fiscal year 1972 project accounts for the understatements, the District did not compute a full year's interest on the adjustments. Instead, the District recorded the adjustments as of June 30, 1972, and only computed a half-year's interest. As a result, the fiscal year 1972 interest expense was understated as follows:

Little Goose Project - \$12,983

Lower Monumental Project - \$16,668

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2. The Walla Walla District made several errors in the allocation percentages applied to joint power accounts.

In the case of the Dworshak project, 93.7 percent of the contingent liabilities were allocated to the joint power function. Since the approved allocation percentage was 96.3 percent, the fiscal year 1972 contingent liabilities were understated by \$118,591.

For the Little Goose project, a percentage of 74 percent was used instead of the approved 80.5 percent for allocating interest and operation and maintenance expenses. The following underallocations occurred as a result:

Fiscal year 1971 - \$21,314

Fiscal year 1972 - \$31,995

3. The Walla Walla District also overallocated about \$6.5 million to the power portion of the construction work-in-progress account for the Lower Granite project. This amount should have been allocated to the navigation and recreation portions of the account.

After discussion of the preceding matters with Walla Walla District officials, adjustments were made to correct the respective accounts and/or financial statements involved in items 2 and 3, and we were advised that item 1 will be corrected in fiscal year 1973.

The errors disclosed in the Walla Walla District indicate a need for more stringent supervisory review of each project's statements submitted to BPA for consolidation. This was also pointed out in our May 5, 1972, letter. We recognize that time constraints may preclude adequate review prior to the August 15 statement due date at BPA. If this is the case, we believe that further review should be performed after August 15 and revised statements issued to BPA as early as possible.

We suggested to the District Comptroller that the folders for each District project contain accounting information indicating the make-up of each account total presented in the financial statements. This information would assist the supervisors in reviewing the statements. In a November 10, 1972, meeting, the District Comptroller informed us that this information would be available during the fiscal year 1973 review.

4. The Portland District improperly included \$1,277,957 of interest-during-construction as a reimbursable irrigation cost for six

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projects. As discussed in last year's letter concerning the Chief Joseph project, interest on costs allocated to irrigation is not repaid to the U.S. Treasury. 46C 00038

After discussion of this matter with the District Comptroller, the adjusted amounts were submitted to BPA.

5. Our review at the Seattle District showed that fiscal year 1972 contingent liabilities of the Libby Dam project were understated by about \$21 million. The additional liability involved claims that related to contract work performed in fiscal year 1972 and prior thereto and therefore should have been included in the footnotes to the fiscal year 1972 statements.

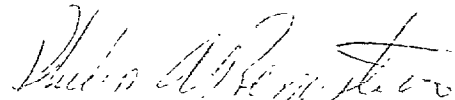
After discussion of this matter with Seattle District and BPA officials, the FCRPS financial statement footnotes were revised to include the adjusted total.

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A copy of this letter is being sent to the Engineer Comptroller and to the District Engineers at the Portland, Seattle, and Walla Walla Districts.

We wish to acknowledge the courtesy and cooperation extended to our representatives during this review. We are also pleased to note that adjustments were made for the findings presented in our May 5, 1972, letter. Your comments and advice as to final action taken on the preceding matters will be appreciated.

Sincerely yours,



Philip A. Bernstein  
Regional Manager

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