



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-282391

May 26, 1999

The Honorable John T. Doolittle
Chairman, Subcommittee on
Water and Power
Committee on Resources
House of Representatives

The Honorable John R. Kasich
Chairman
Committee on the Budget
House of Representatives

Subject: Financial Management: Bureau of Reclamation Sources and Uses of Funds

On November 18, 1998, we briefed your staff on the status of our review of the Bureau of Reclamation's sources and uses of funds at federal water projects. On April 7, 1999, we provided them with a final briefing on the results of the review. The enclosed briefing slides (enclosure 1) highlight the results of our work and the information we provided to your staff in the two briefings.

We performed the review in response to your questions about (1) the Bureau's legal authorities and policies and procedures for obtaining, using, and accounting for funds, the types and amounts of funding obtained, and how the funds were spent, (2) controls that were established to ensure that funds are properly obtained, used, and accounted for, (3) operations and maintenance (O&M) activities, expenses, and policies and procedures, and (4) other issues, such as the repayment of O&M and construction costs at the Central Valley Project (CVP).

Results in Brief

The Bureau of Reclamation obtains funds from several sources and uses them in many ways, as shown in the enclosed flow chart (enclosure 2). All of these sources are presented in the Budget of the United States Government and in the Bureau of Reclamation's budget justification or, in the case of transfer appropriations, in the appropriate agencies' budget justification. The Bureau of Reclamation's major sources of funds for federal water projects include (1) appropriations authorizing the use of the Reclamation Fund, which is funded through royalties related to oil and mineral extraction, sales of electricity and water, repayment of capital construction costs, and other activities, (2) appropriations using General Fund receipts of the Treasury, and (3) reimbursable activities, under which the Bureau of Reclamation provides services to federal and nonfederal entities for a fee. The first two

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sources of funds are annual appropriations requiring action by the Congress; the third source is permanent appropriations available without further action by the Congress. The Bureau of Reclamation's major uses of funds at federal water projects include (1) O&M, construction, and general investigation activities under the Water and Related Resources appropriation,¹ (2) activities pertaining to the Upper and Lower Colorado River Basins, and (3) policy and administrative expenses. The total financial resources available to the Bureau of Reclamation increased from about \$1.43 billion in fiscal year 1992 to about \$1.76 billion (in nominal dollars) in fiscal year 1998, representing an average increase of about 3.5 percent annually.

The Bureau of Reclamation has established controls to address key risks associated with the funds it obtains and uses and has established specific controls intended to safeguard against those risks. The overall system of controls is intended to ensure that funds are properly obtained, used, and accounted for. We did not perform a comprehensive review of the system of internal controls established by the Bureau of Reclamation because of the amount of time which would have been required to do so. Instead, as agreed with your offices, we limited our internal control work to assessing the design of the internal control structure related to key risks, such as assets not being safeguarded from unauthorized use and transactions not being executed according to budget authority or relevant laws and regulations. Based on our assessment, nothing came to our attention to indicate that there were design weaknesses related to the internal controls in these key areas.

The Bureau of Reclamation undertakes a wide variety of O&M activities at federal water projects. Operations activities include monitoring river flows, operating gates and breakers, flood control, preparing annual operating plans, carrying out activities designed to manage land resources and comply with environmental laws, and administering contracts with customers. Maintenance activities include major repairs of equipment and facilities, equipment replacements, inspections of facilities, and lubrications of pumps and machines. The O&M expenses incurred by the Bureau of Reclamation and allocated to customers for repayment include overhead activities undertaken by the Reclamation Service Center in Denver, Colorado, and by regional offices. However, the Bureau of Reclamation is by law prohibited from charging customers for certain activities that are typically considered overhead. Among these are agency management costs such as the expenses of the Office of the Commissioner in Washington, D.C., and certain project planning costs such as the expenses related to preconstruction feasibility studies.

Total Bureau of Reclamation O&M (for both municipal and industrial and irrigation uses) increased from \$83.5 million in fiscal year 1993 to about \$114.8 million (in nominal dollars) in fiscal year 1997. According to Bureau of Reclamation officials, this increase was attributable primarily to the fact that the Central Arizona Project only recently came online with respect to water deliveries. This resulted in interest costs that had previously been capitalized being charged as a current period O&M expense, thus significantly increasing total O&M costs.

¹Starting in fiscal year 1998, the Bureau renamed these activities water and energy management development, facility operation, facility maintenance and rehabilitation, land management and development, and fish and wildlife management and development.

During the course of our work, we developed information on several other issues. For example, we found that the CVP water service contract rates are not recovering the full O&M costs incurred by the Bureau of Reclamation. As of September 30, 1996, CVP municipal and industrial (M&I) customers and irrigation customers had reported accumulated O&M deficits totaling about \$166 million and \$33 million, respectively. These represent costs incurred by the Bureau of Reclamation to operate and maintain CVP facilities that have not been recovered through rates from the project customers. In addition, the water service contract rates have recovered little of the original CVP construction costs incurred by the Bureau of Reclamation which have been allocated to municipal and industrial customers and irrigation customers for repayment. As of September 30, 1996, CVP municipal and industrial customers had repaid \$8 million (about 1.6 percent) of the original federal investment of \$490 million that was allocated to them for repayment. Irrigation customers had repaid \$63 million (about 5.6 percent) of their federal investment allocation of \$1.12 billion. This situation raises questions about whether CVP main system construction costs that have been allocated for repayment by irrigation and M&I customers will be recovered by the year 2030, as required by the Water Resource and Small Reclamation Projects Act. Additional issues we discussed during the briefing included changes in the application of revenues that the Bureau of Reclamation receives for transporting nonproject water via Bureau of Reclamation facilities, the status of the repayment of the costs allocated to the Western Area Power Administration (WAPA) for recovery through rates charged power customers, and the funding of the Glen Canyon Dam environmental impact study.

Scope and Methodology

To fulfill our objectives, we reviewed Bureau of Reclamation annual reports, audited financial statements, and budget documents for fiscal years 1982 through 1998. We also reviewed various other Bureau of Reclamation documents and reports, including a report on its operations and maintenance activities for fiscal years 1993 through 1997. While some of the data we obtained had been audited, most of it had not. We did not verify the accuracy of the unaudited data. In addition to obtaining data from published sources, we interviewed Bureau of Reclamation officials at various locations, including Bureau of Reclamation headquarters in Washington, D.C., the Mid-Pacific Region in Sacramento, California, the Upper Colorado Region in Salt Lake City, Utah, the Lower Colorado Region in Boulder City, Nevada, and the Denver, Colorado, Service Center. We conducted our work from August 1998 through March 1999 in accordance with generally accepted government auditing standards. We requested comments on a draft of our briefing slides from Bureau of Reclamation officials, who generally agreed with the information in the slides. We incorporated their technical comments as appropriate.

We are sending copies of this letter and briefing slides to Representative Calvin Dooley, Ranking Minority Member, Subcommittee on Water and Power, House Committee on Resources, and Representative John Spratt, Jr., Ranking Minority Member, House Committee on the Budget. We are also sending copies to the Honorable Bruce Babbitt, Secretary of the Interior, and the Honorable Eluid Martinez, Commissioner of the Bureau of Reclamation.

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Copies will be made available to others on request. If you have questions or desire additional assistance on any of these matters, please contact me at (202) 512-9508.



Linda M. Calbom
Director, Resources, Community,
and Economic Development, Accounting
and Financial Management Issues

Enclosures

GAO **Accounting and Information Management
Division**

Congressional Briefing:

**The Bureau of Reclamation's Sources and Uses of
Funds**

April 7, 1999

GAO Purpose of Briefing

- To provide the results of our work on funding issues at the Department of the Interior's Bureau of Reclamation (BOR)

GAO Objectives of the Job

- To provide information on:
 - Legal authorities and policies/procedures for obtaining, using, and accounting for funds, the types and amounts of funding obtained, and how funds were actually spent
 - Design of controls that were established to ensure funds are properly obtained, used, and accounted for
 - Operations and maintenance (O&M) expenses; constraints on raising O&M charges; roles constituents have in O&M decisions; and policies regarding application of payments
 - Other issues, including changes in the application of revenues that the Bureau of Reclamation receives for transporting non-project water via Bureau of Reclamation facilities, the status of the repayment of the costs allocated to the Western Area Power Administration for recovery through rates charged power customers, and the costs of the Glen Canyon Dam environmental impact study.

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Operations and Maintenance	31
Other Issues	43

GAO Sources and Uses of Funds

- Authorities
- Flow of funds
- The Reclamation Fund
- The Working Capital Fund
- Total reported financial resources
- Reprogrammings

GAO Sources and Uses: Principal Legal Authorities

Reclamation Act of 1902
Town Sites and Power Development Act of 1906
Warren Act of 1911
Act for Sale of Water for Miscellaneous Purposes (1920)
Federal Power Act of 1920
Contributed Funds Act (1922)
Fact Finders Act of 1924
Omnibus Adjustment Act of 1926
Leavitt Act of 1932
Interior Department Appropriation Act (1938)
Reclamation Project Act of 1939
Flood Control Act of 1944
Emergency Fund Act of 1948
Rehabilitation and Betterment Act of 1949
Interior Department Appropriation Act (1955)
Drainage and Minor Construction Act of 1956
Act Relating to the Administration of Contracts (1956)
Water Supply Act of 1958
Federal Water Project Recreation Act of 1965
Reclamation Safety of Dams Act of 1978
Reclamation Reform Act of 1982
Reclamation Recreation Management Act of 1992
Reclamation Projects and Adjustment Act of 1992

GAO Sources and Uses: Governing Authorities

Funding Source

Governing Authorities

Treasury General Fund Appropriations Appropriations Legislation

Reclamation Fund Appropriations Reclamation Act of 1902, through appropriations legislation

Reimbursable Programs Contracts

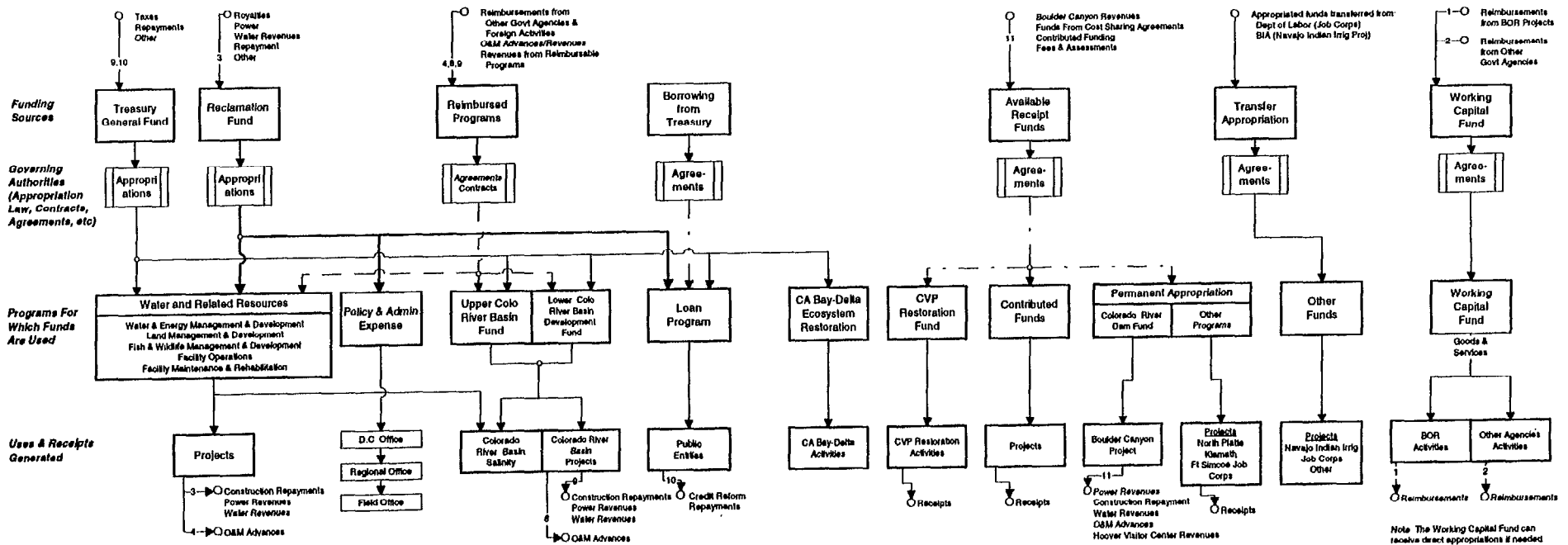
Available Receipt Funds
(e.g., Trust Funds) Cost-sharing Agreements, Contributed Funding Act, Boulder Canyon Repayments, and Miscellaneous Revenues

Transfer Appropriations Agreements with other agencies, as authorized by law

Revenue-financed Programs
(Revolving Funds) Project-specific legislation

Working Capital Funds Energy and Water Development Appropriation Act of 1985, Agreements with other agencies

GAO Bureau of Reclamation Sources and Uses of Funds



Source: GAO (based on BOR documents and BOR input with final version reviewed by BOR officials).

Note: The Working Capital Fund can receive direct appropriations if needed.

GAO Sources and Uses: Flow of Funds

Resources and Uses for FY 1998 (Amounts in Millions on a Budgetary Basis)	Water & Related Resources	Policy & Admin Expenses	Upper Colorado River Basin	Lower Colorado River Basin	Loan Program	CA Bay-Delta Ecosystem Restoration	CVP Restoration Fund	Contributed Funds	Colorado River Dam Fund	Other Permanent Approps.	Other	Working Capital Fund	Total
RESOURCES:													
Appropriations:													
Treasury General Fund	\$ 80.50	\$0.00	\$ 17.10	\$ 41.40	\$ 10.00	\$ 85.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$ 234.00
Reclamation Fund	559.96	47.56	0.00	0.00	0.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00	607.94
Borrowing from Treasury	0.00	0.00	0.00	0.00	15.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00	15.34
Total Appropriations	640.46	47.56	17.10	41.40	25.76	85.00	0.00	0.00	0.00	0.00	0.00	0.00	857.28
Reimbursable Program Authority:													
Water Users	71.80												71.80
Agreements / Other Govt Entities	93.00												93.00
Power (for O&M)			32.80	54.81									87.61
Repayment Contracts (to Treasury)			2.20	13.08					2.60				17.88
Receipts Pending Distribution to Ute Tribe			33.26										33.26
Goods & Services												275.73	275.73
Loans					11.59								11.59
Miscellaneous Revenue			16.41										16.41
Job Corps Revenue (from Dept. of Labor)											0.92		0.92
Total Reimbursable Program Authority	164.80	0.00	84.67	67.89	11.59	0.00	0.00	0.00	2.60	0.00	0.92	275.73	608.20
Available Receipt Revenues:													
Power Sales & Construction Repayments									34.35				34.35
Other Available Receipts							24.62	32.23		0.26			57.11
Total Available Receipt Revenues	0.00	0.00	0.00	0.00	0.00	0.00	24.62	32.23	34.35	0.26	0.00	0.00	91.46
Transfer Appropriations (from Other Federal Agencies)											53.87		53.87
Carryover	67.60	3.21	13.80	153.70	5.82	0.00	25.78	9.03	9.01	0.06	20.15	69.55	377.71
Transfer of Prior Year Authority			0.15								(0.03)		0.12
Intrabureau Eliminations													(232.01)
Total Resources	\$ 872.86	\$ 50.77	\$ 115.72	\$ 262.99	\$ 43.17	\$ 85.00	\$ 50.40	\$ 41.26	\$ 45.96	\$ 0.32	\$ 74.91	\$ 345.28	\$ 1,756.63

GAO Sources and Uses: Flow of Funds

Resources and Uses for FY 1998 (Amounts in Millions on a Budgetary Basis)	Water & Related Resources	Policy & Admin Expenses	Upper Colorado River Basin	Lower Colorado River Basin	Loan Program	CA Bay-Delta Ecosystem Restoration	CVP Restoration Fund	Contributed Funds	Colorado River Dam Fund	Other Permanent Approps.	Other	Working Capital Fund	Total
USES:													
Construction, O&M, Rehabilitation & Betterment, General Investigations, Preconstruction													
Planning, & Safety of Dams	588.01												\$ 588.01
Reimbursables & Federal Building Fund - GSA O&M	72.68												72.68
CRSP Section 8 Fish & Wildlife & Recreation	3.02												3.02
Colo River Salinity - Title 1	20.20												20.20
Water User - O&M	17.31												17.31
Power User - O&M	44.28												44.28
Loan Program					13.29								13.29
Direct Loans - Financing Account					26.92								26.92
General Admin Exp.		45.31											45.31
CA Bay-Delta Ecosystem Restoration						73.06							73.06
LCRBDF Construction				41.97									41.97
LCRBDF Reimbursables				4.25									4.25
CAWCD Pre-Payment Revenue, LCRBDF Transferred Works & Interim O&M				105.26									105.26
UCRBF Construction & Preconstruction Planning			15.24										15.24
UCRBF Water User			1.35										1.35
UCRBF Revenue & O&M			43.47										43.47
Working Capital Fund Activities												291.38	291.38
Other Fish & Wildlife Activity - General Investigations O&M, & Construction							6.61						6.61
Habitat/Improvement/Acquisition - General Investigations, O&M, & Construction							21.70						21.70
CRDF, Boulder Canyon Project - Rev. & O&M									38.61				38.61
Trust Funds								20.13					20.13
BIA Construction										29.23			29.23
Natural Resource Damage Assessment/Restoration										0.06			0.06
Job Corps										24.57			24.57
Total Uses	745.50	45.31	60.06	151.48	40.21	73.06	28.31	20.13	38.61	0.00	53.86	291.38	1,547.91
Unobligated Balances - Avail. (no year)	127.36	3.64	22.40	32.54	2.61	11.94	22.09	21.13	7.35	0.32	20.64	53.90	325.92
Unobligated Balances - Unavailable (no year)	0.00	0.00	33.26	78.97	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	112.23
Unobligated Balances - Unavail. (expired)	0.00	1.82	0.00	0.00	0.35	0.00	0.00	0.00	0.00	0.00	0.41	0.00	2.58
Intrabureau Eliminations													(232.01)
Total Disposition of Funds	\$ 872.86	\$ 50.77	\$ 115.72	\$ 262.99	\$ 43.17	\$ 85.00	\$ 50.40	\$ 41.26	\$ 45.96	\$ 0.32	\$ 74.91	\$ 345.28	\$ 1,756.63

14 Source: Based on BOR generated data used for the Statement of Budgetary Resources for FY 1998, and BOR input. The Bureau anticipates that \$21.5 million of the \$22.09 million in available unobligated balances for the CVP Restoration Fund will be used to pay amounts billed by the U.S. Fish and Wildlife Service in FY 1999 or thereafter.

GAO Sources and Uses: The Reclamation Fund

- Purpose: Finances reclamation projects and BOR's normal operations
- Type: Appropriated fund
- Sources of funding:
 - Power revenues, mineral royalties, water revenues, repayment of construction costs, land and timber revenues, other
- Activities funded
 - Water and related resource programs
 - Policy and administration
 - Loan program

GAO Sources and Uses: Reclamation Fund Receipts Are Legislatively Determined

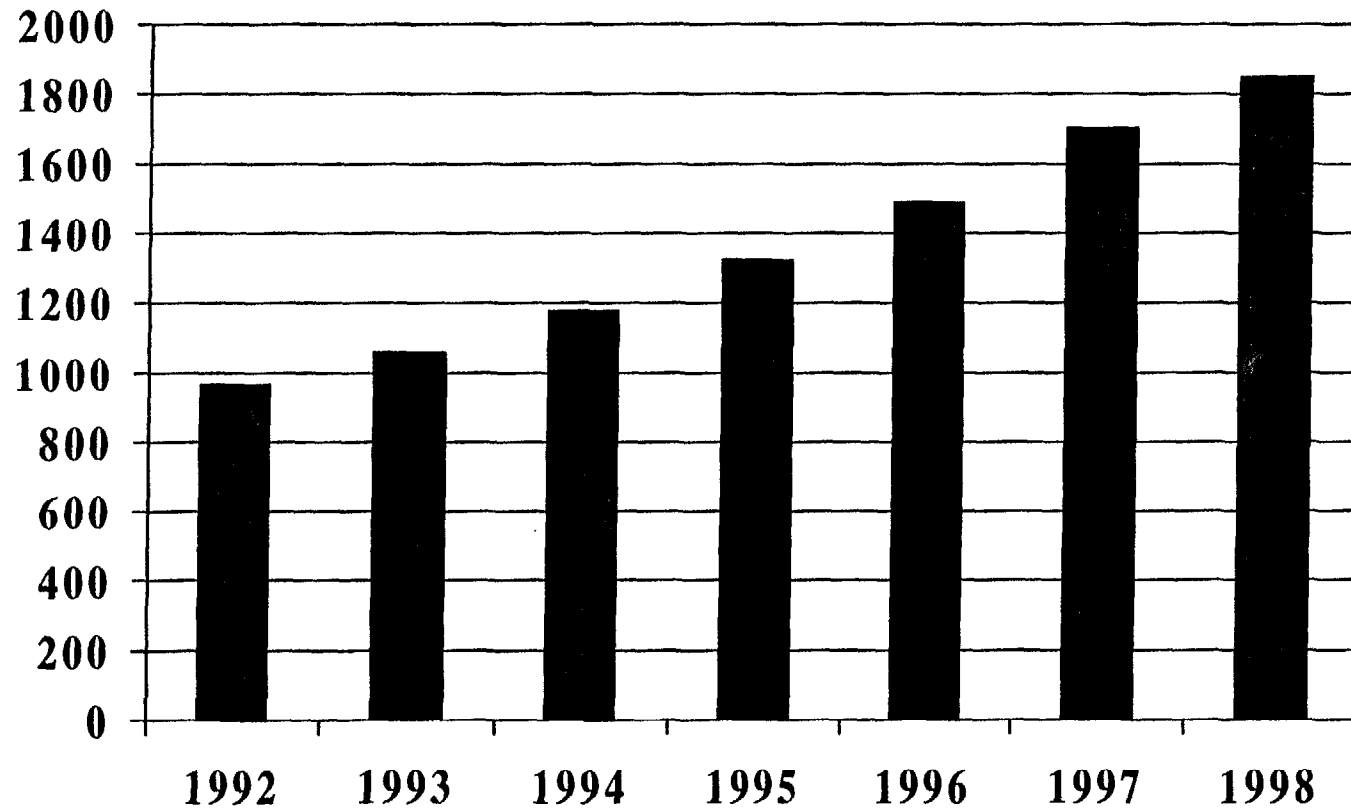
Type of Receipt	<u>Reported FY98 Receipts</u>		Authorities Total	Portion Allocated to Reclamation Fund
	\$ (in millions)	% of		
Oil and mineral royalties	422.8	45	Mineral Leasing Act (30 USC 181 et seq)	40%
Power Sales	403.5	43	P.L. 95-91 DOE Organization Act	No fixed percentage
Water Sales	36.6	4	Reclamation Law (43 USC 392a)	100% (primarily from CVP water service contracts)
Construction Repayment	34.2	4	Reclamation Law (43 USC 392a)	100% if Reclamation Fund is the source of the construction appropriation
Sale of public lands	12.6	1	Reclamation Law (43 USC 391a)	95%
Sale of timber	6.0	1	30 USC 601 43 USC 394	95%
Federal water power licenses	3.8	.4	16 USC 810	50%

GAO Sources and Uses: Reported Reclamation Fund Receipts

Receipts	FY1996 (\$ in millions)	FY1997 (\$ in millions)	FY1998 (\$ in millions)
Power Revenues	419.6	360.0	403.5
Mineral Royalties	377.2	434.4	422.8
Water Revenues	97.2	64.8	36.6
Repayment of Construction Costs	51.9	43.0	34.2
Land and Timber Revenues	12.5	0.0	18.6
Other Revenues	<u>26.4</u>	<u>51.7</u>	<u>23.9</u>
Totals	984.8	953.9	939.6

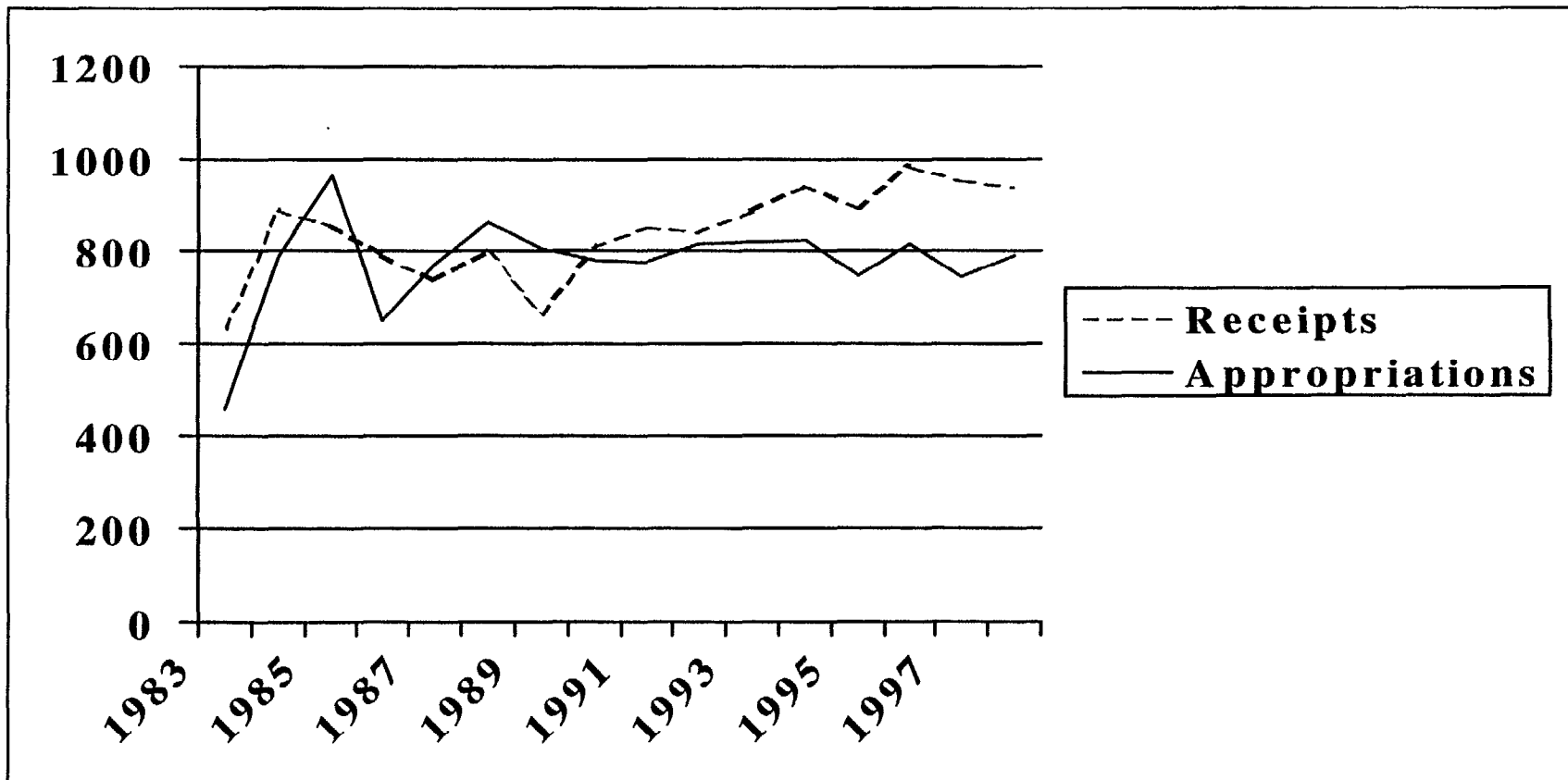
**GAO Sources and Uses: Reported Reclamation
Fund Unappropriated Balance**

Dollars (in millions)



GAO Sources and Uses: Reported Reclamation Fund Receipts and Appropriations

Dollars (in millions)

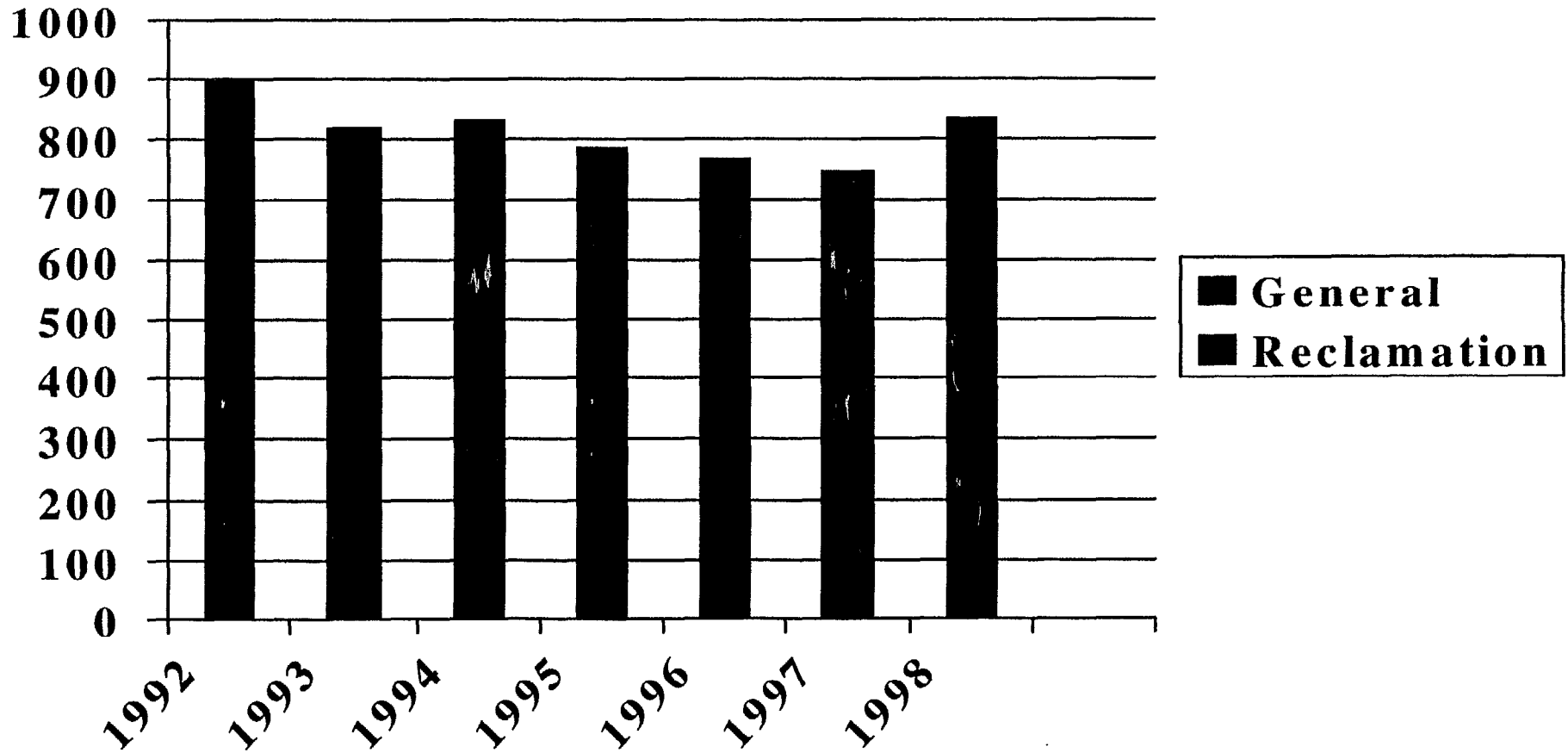


**GAO Sources and Uses: Reclamation Fund
Outflows Are Legislatively Determined**

- Receipts from the Reclamation Fund are not available for obligation without congressional appropriation
- Bureau expenditures are to be financed from the Reclamation Fund unless the Congress directs otherwise
- Some project-specific legislation specifies that expenditures are to be financed from the General Fund

GAO Sources and Uses: Budgeted General and Reclamation Fund Appropriations

Dollars (in millions)

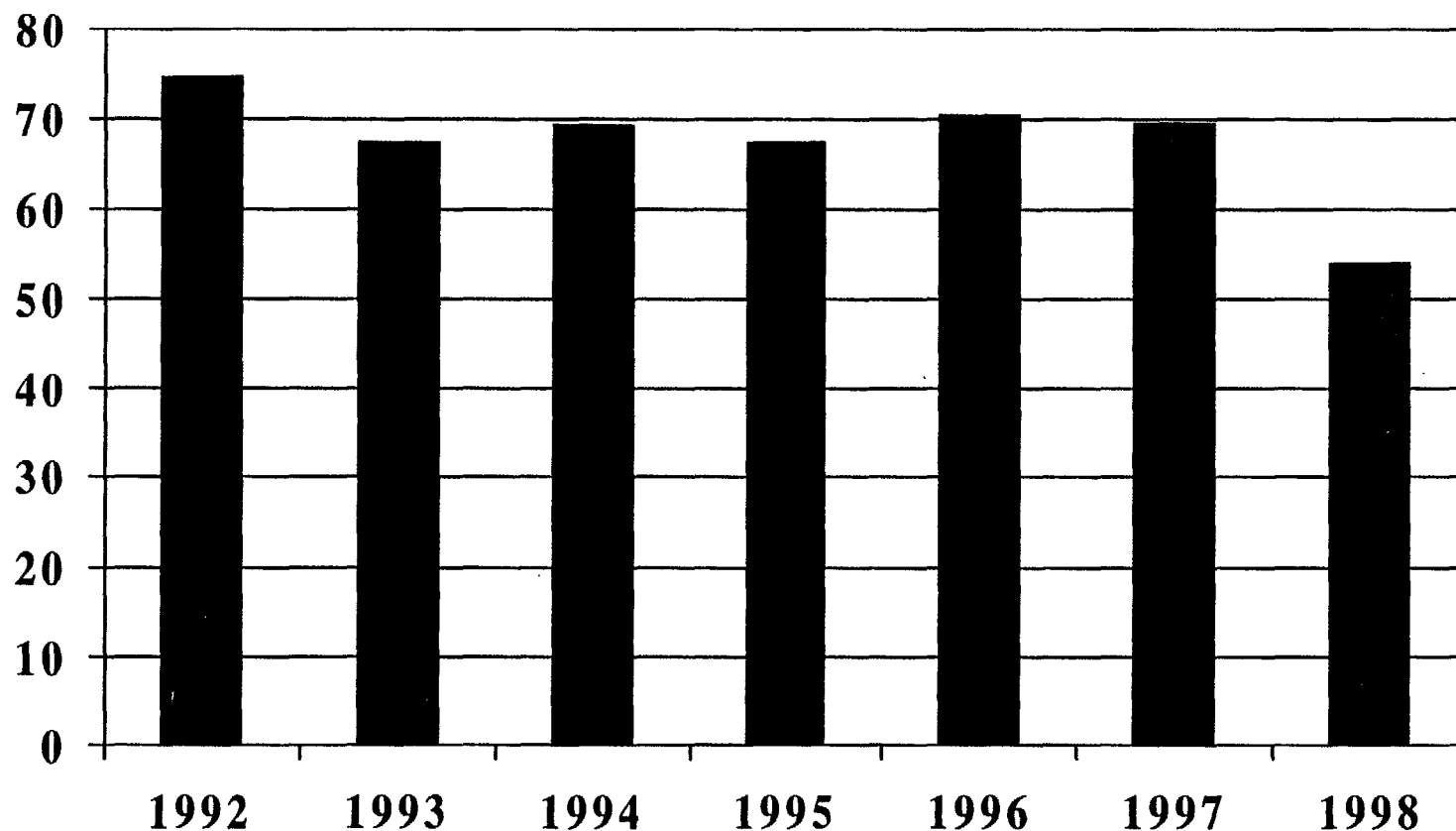


GAO Source and Uses: The Working Capital Fund

- Purpose: Provides support services and equipment for BOR and other federal and non-federal entities
- Type: Revolving fund
- Sources of funding
 - Reimbursements for services provided
 - Direct appropriations for specific purposes (rare)
- Activities funded
 - Engineering and technical services
 - Administrative services
 - Computer and related services

GAO Sources and Uses: Reported Working Capital Fund Unobligated Fund Balance

Dollars (in millions)



**GAO Sources and Uses: Total Reported Resources
(Including Carryover Balances) by FY (Dollars in millions)**

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Construction	631	828	731	951	670	691	806	907	782	852
O&M	122	157	290	254	291	271	288	255	382	404
General Investigations	33	40	40	38	34	51	19	16	14	16
General Administration	40	41	54	68	64	52	53	52	49	53
Colorado River Dam Fund (CRDF)	---	---	---	---	---	45	49	64	49	50
Other	39	63	55	75	61	133	339	171	225	333
Total	864	1,129	1,170	1,397	1,119	1,222	1,554	1,465	1,501	1,708

Other may include the Loan Program, Emergency Fund, Job Corps Program, and Working Capital Fund. Above numbers are generally as reported. Total may not add due to rounding. Classification of CRDF amounts for FYs 1982 through 1986. Total may not add due to rounding. Total may not add due to rounding.

**GAO Sources and Uses: Total Reported Resources
(Including Carryover Balances) by FY (Dollars in millions)**

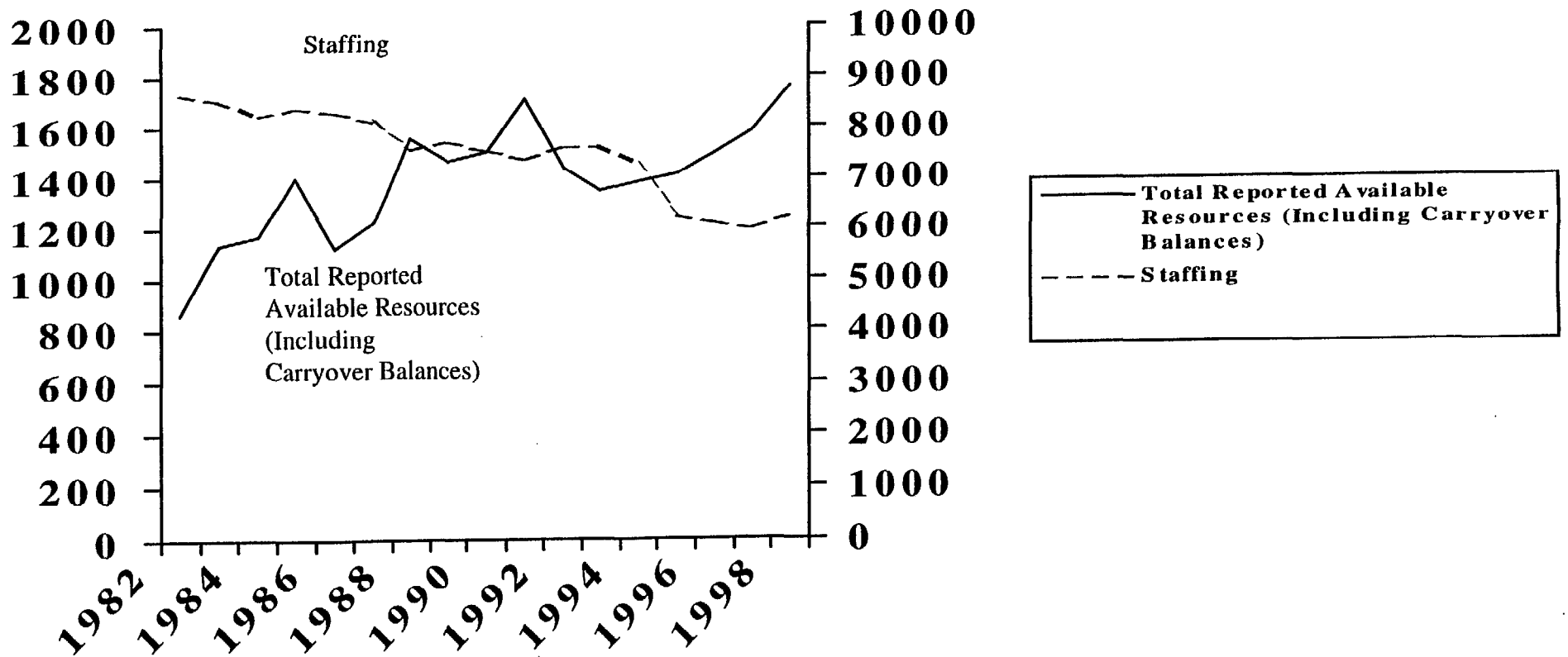
	1992	1993	1994	1995	1996	1997	1998
Construction	797	692	715	667	691	701	N/A
O&M	453	468	463	542	552	626	N/A
General Investigations	16	15	15	16	15	19	N/A
General Administration	57	68	61	60	53	53	N/A
Colorado River Dam Fund	50	39	40	43	47	51	N/A
Other	59	63	83	83	131	128	N/A
Total	1,432	1,346	1,377	1,411	1,487	1,578	1,757

25 Totals include amounts not available to the Bureau. These amounts are repayment contracts which are sent to the Treasury General Fund and receivables subject to litigation. The amounts unavailable were, for FYs 1995, 1996, 1997, and 1998, \$47.7, \$75.9, \$159.8, and \$169.5 million, respectively. Breakdown of FY 1998 total resources was not available.

GAO Sources and Uses: Reported Available Financial and Staffing Resources for FYs 1982-1998

Dollars (in millions)

Number of Staff



GAO Sources and Uses: Reprogrammings

- Bureau reprogrammings are movements of funding within an appropriation:
 - Appropriation committees have established specific reprogramming criteria
 - The committees expect advance notification of certain reprogrammings. These are generally large in amount. Other reprogrammings require no notification.
 - No summary reports on reprogrammings are provided to Congress

GAO Sources and Uses: FY 1998 Reprogrammings -- Congress Notified

Transfer To	Transfer From	Amount	Reason
San Bernardino County/San Sevaine Loan Project	Milltown Hill Project/Tohono O'odham Nation Project, Schuk Toak District	\$ 6,255,000	Accelerate project completion
Klamath Project	CVP, Auburn-Folsom South Unit/Yakima River Basin Water Enhancement Program/ CVP, Miscellaneous Projects Program/ Columbia & Snake River Salmon Recovery Program	6,000,000	Increasingly complex water supply and environmental restoration issues
Endangered Species Conservation/ Recovery Project	Central Arizona Project/New Waddell Dam	3,200,000	Biological opinion requirements
CVP, Sacramento River Division	Columbia & Snake River Salmon Recovery Program	2,900,000	Project cost increases
Salton Sea Project	Central Arizona Project/New Waddell Dam	1,300,000	Federal cost share for project planning
Total		\$19,655,000*	

28 *Note: This is 2.3% of total FY 1998 appropriations of \$857 million.

**GAO Sources and Uses: FY 1998 Reprogrammings --
Notification Not Required**

RECIPIENT REGION	NUMBER	AMOUNT
Mid-Pacific	20	\$14,214,625
Lower Colorado	10	10,270,000
Great Plains	20	16,544,000
Denver Office	7	10,390,000
Pacific Northwest	20	5,416,000
Upper Colorado	9	3,949,000
Washington Office	<u>5</u>	<u>1,318,000</u>
Totals	91	\$62,101,625*

GAO Internal Controls

- Steps involved in a comprehensive review of internal controls
- Our assessment of the design of the internal control structure
- Observations

GAO Internal Controls: Steps Involved in a Comprehensive Review of Controls

- Gain an understanding of the internal control structure
- Document understanding of the internal control structure
- Test understanding of the internal control structure
- Assess the design of the internal control structure
- Develop tests used to determine effectiveness of key internal controls
- Complete tests, evaluate results, and report on effectiveness of internal controls

GAO Internal Controls: Assessment of the Design of the Control Structure

- As agreed with your offices, we limited our internal control work to assessing the design of the internal control structure for receipts, disbursements, and budget execution
- Specifically, we
 - Gained an understanding of the internal control structure
 - Documented and confirmed our understanding of the internal control structure
 - Assessed the design of the internal control structure

GAO Internal Controls: Observations

Key Risks	Examples of Controls	Observations on Designed Controls
Are funds and assets safeguarded from unauthorized use?	Large disbursements and contract modifications require prevalidation	BOR has designed an approval control
Are transactions executed according to budget authority or relevant laws and regulations?	Budgets are used to monitor obligations Solicitor reviews draft contracts	BOR has designed an authorization control
Is financial & budget information accurate and reliable?	BOR reconciles its cash receipts and disbursements with Treasury's records	BOR has designed an independent check

GAO Internal Controls: Observations

Key Risks	Examples of Controls	Observations on Designed Controls
Are reimbursable project construction and O&M costs recovered in accordance with applicable laws and regulations?	Statements of Project Construction Cost and Repayment are used to monitor status of project repayment	BOR has designed a control for reviewing summarized data
Are customers treated equitably?	Standard clauses are used when drafting contracts	BOR has designed an authorization control

GAO O&M

- O&M examples
- Allocation of overhead
- Reported O&M expenses
- Constraints on raising O&M charges and customer input
- Deficits at CVP
- Application of payments at CVP
- Recent changes at CVP

GAO O&M: Examples of Operations Activities

Operations activities are ongoing tasks such as

- Monitoring river flows
- Operating gates, breakers, generators, and pumps
- Recording instrument readings
- Flood control
- Preparing annual operating plans
- Coordinating operations with WAPA, Bonneville Power Administration (BPA), etc.
- Land resource management and environmental compliance activities
- Administering laws and contracts (e.g., water service and repayment contracts)

GAO O&M: Examples of Maintenance Activities

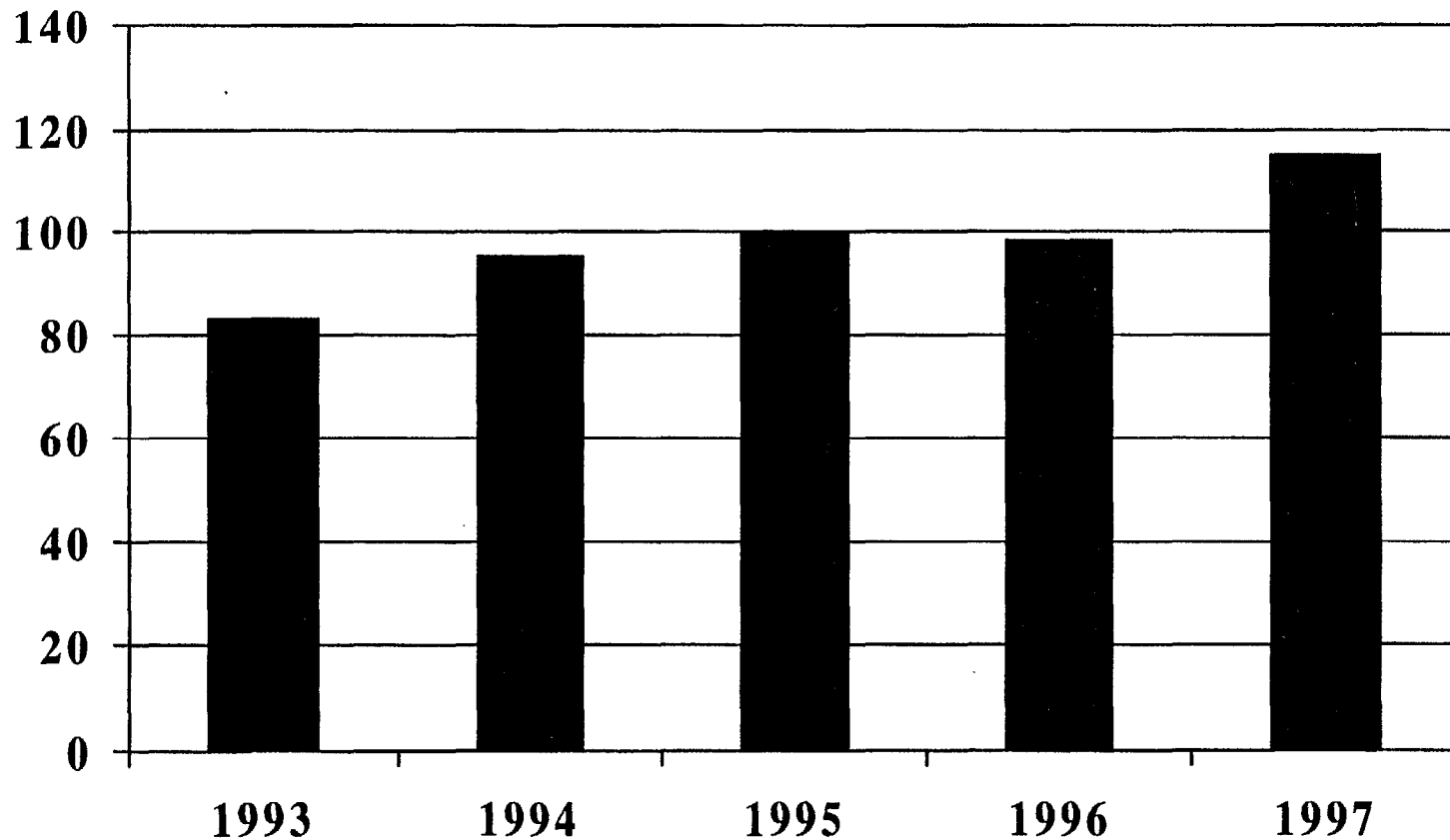
- Maintenance activities are different from operations activities and include
 - Major Tasks:
 - Major repairs and rehabilitation (rewinds)
 - Facilities additions
 - Equipment replacements
 - Routine Measures:
 - Testing/Inspecting/rebuilding pumps, generators, and ancillary equipment
 - Lubricating pumps and machines
 - Inspecting facilities

GAO O&M: Allocation of Overhead

- Included in O&M
 - Administrative services provided by Reclamation Service Center
 - Administrative and water and land support services provided by regional offices
- BOR O&M excludes, by law, some costs that are typically considered overhead
 - Expenses of the Office of the Commissioner in Washington, D.C. and Denver
 - Expenses of any offices associated with the development of agency-wide policies and procedures
 - Expenses of General Investigations (e.g., pre-construction feasibility studies)

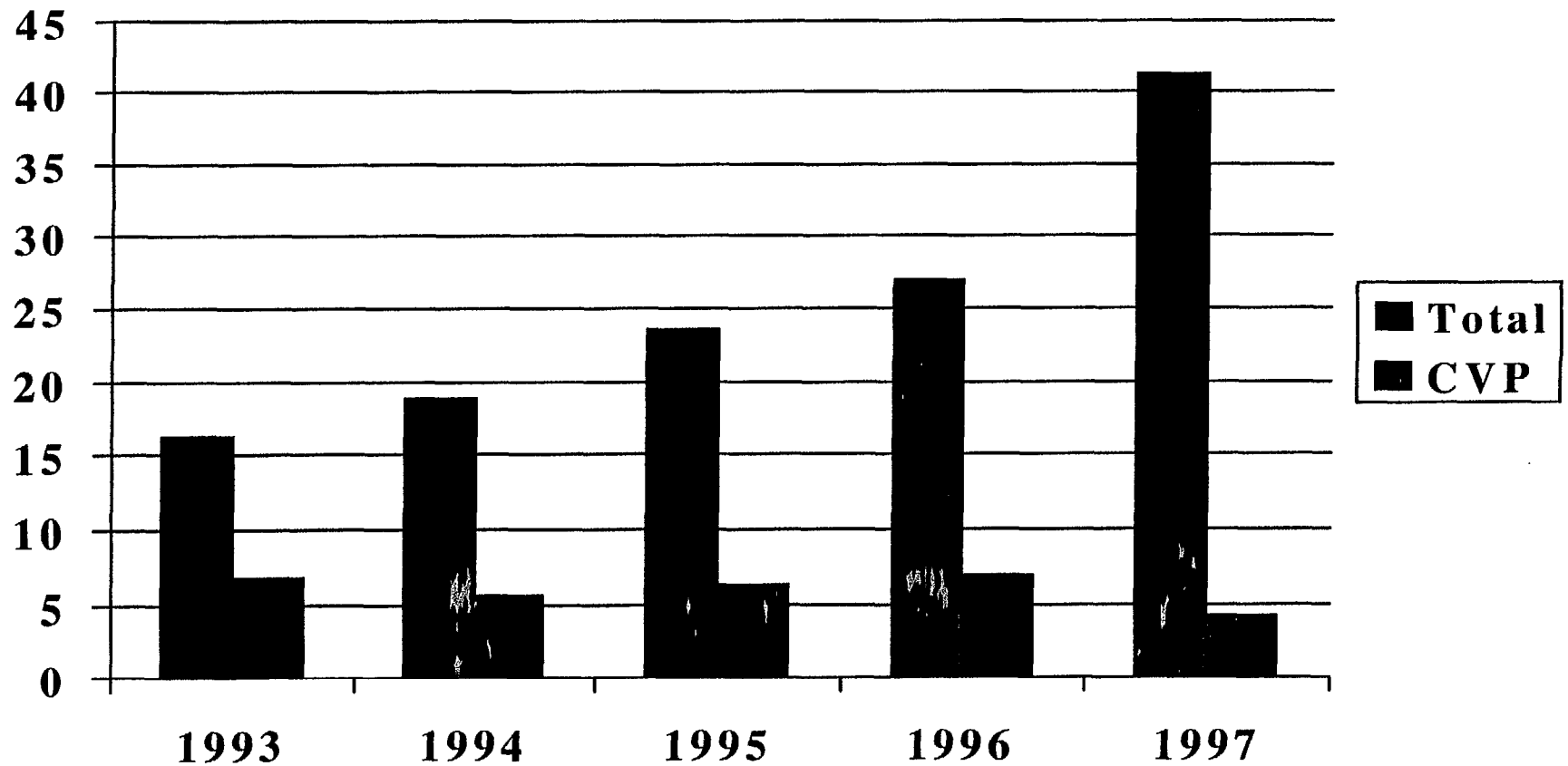
GAO O&M: Reported Total Bureau M&I and Irrigation Expenses for FYs 1993-1997

Dollars (in millions)



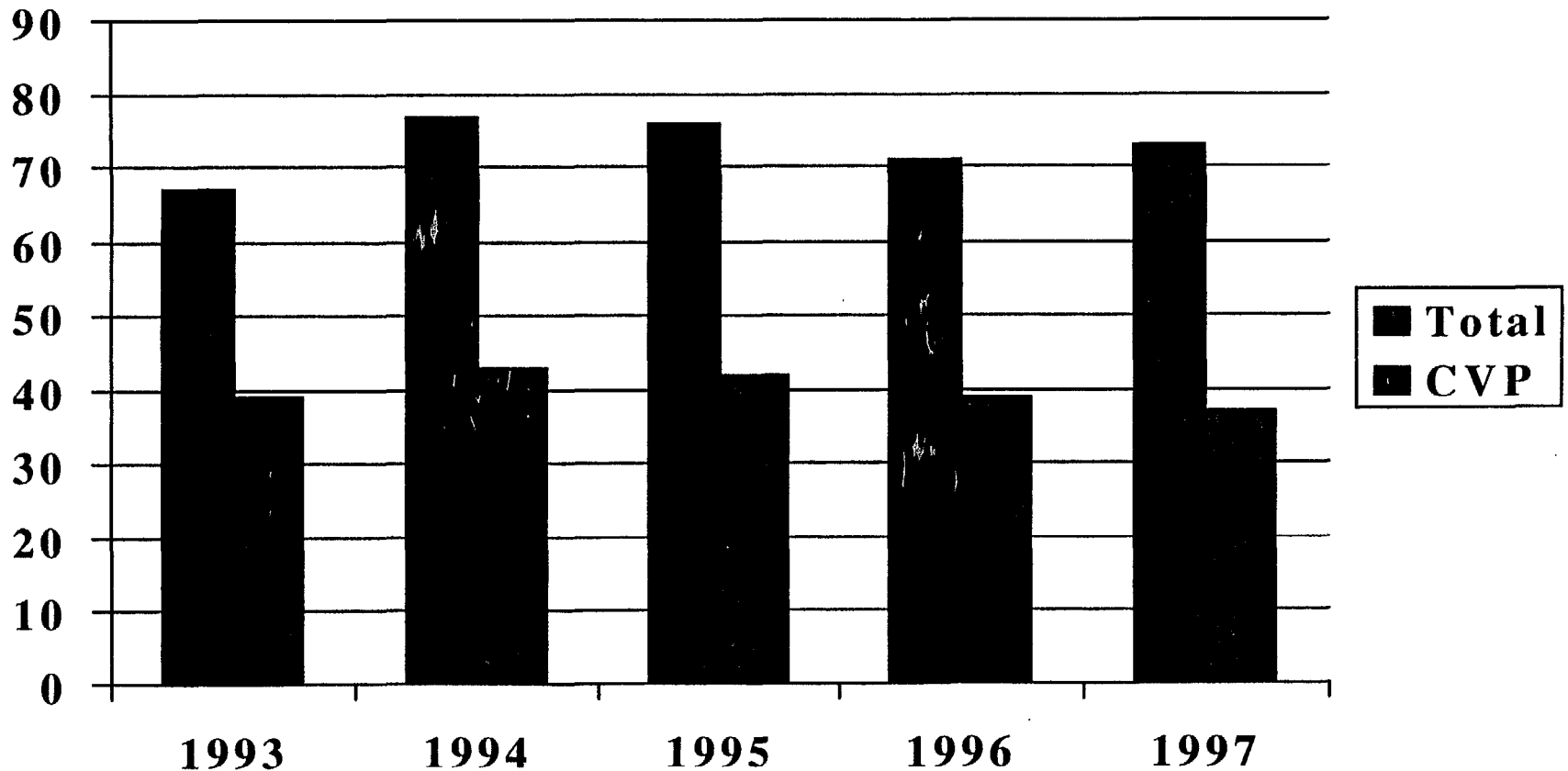
GAO O&M: Reported Total Bureau and CVP M&I Expenses for FYs 1993-1997

Dollars (in millions)



**GAO O&M: Reported Total Bureau and CVP
Irrigation Expenses for FYs 1993-1997**

Dollars (in millions)



GAO O&M: Constraints on Raising Charges and Customer Input

- Direct and indirect O&M costs are required to be charged to customers, except those excluded by law
- Water users now have no formal role in setting the O&M budget, although there is informal interaction
 - BOR has developed a policy to more closely involve water users in the process
- Water users have funded certain O&M and capital projects they consider vital
- Water users can choose to directly control O&M activities by assuming responsibility for some activities themselves

GAO O&M: Deficits at CVP

- CVP contracts have historically been long-term, fixed-price “water service” contracts
- Water rates have not recovered all O&M costs
- Deficits have accumulated
 - BOR accumulates these deficits and accrues interest on them
 - Irrigation users’ reported deficits total \$33 million
 - M&I users’ reported deficits total \$166 million

GAO O&M: Application of Payments at CVP

- Beginning in 1986, irrigators are allocated interest on deficits only and M&I users are allocated interest on both deficits and construction costs
- For M&I users, interest rates on deficits incurred after 1986 are higher than on construction costs
- Payments under water service contracts applied differently for irrigators and M&I users:

<u>Irrigators</u>	<u>M&I Users</u>
Current O&M	Current O&M
Interest Expense	Interest Expense
Deficit O&M	Construction Costs
Construction Costs	Deficit O&M

GAO O&M: Application of Payments at CVP

- Beginning in 1986, M&I water user payments are applied to construction cost recovery before being applied to O&M deficits
 - O&M deficits incurred after 1986 are charged interest at a higher rate, so M&I users with deficits are allocated higher interest costs
- To reduce impact of higher interest rates, water users can make voluntary O&M deficit payments

GAO O&M: Recent Changes at CVP

- The Water Resource and Small Reclamation Projects Act (P.L. 99-546) required changes in all new and revised contracts
 - Automatic Rate Adjustments
 - If current rates are inadequate to recover full federal investment in main system CVP by the year 2030
 - Include full O&M costs
 - Market interest rates on O&M deficits incurred after October 1, 1985
 - Individual contractor balances maintained for both construction costs and deficits

GAO Other Issues

- Warren Act changes in revenue application
- Western Area Power Administration repayment
- Glen Canyon Environmental Impact Statement (EIS)
- CVP cost recovery

GAO **Other Issues: Warren Act Changes in Revenue Application**

- Warren Act revenues are funds received for transporting non-project water via BOR's facilities
- Prior to 1993, BOR credited Warren Act revenues to the repayment of project costs
 - A 1992 Office of Inspector General audit determined the Bureau's application of miscellaneous revenues to be unauthorized under current law
 - As a result, the Bureau examined its application of all miscellaneous revenues, including Warren Act revenues
- Since 1993, Warren Act revenues are paid directly into the Reclamation Fund and are not credited to repayment of project costs

GAO Other Issues: Warren Act Changes in Revenue Application

- Some CVP water users believe BOR should allocate Warren Act revenues to project repayment
 - BOR must collect revenues from project users for purposes of repayment of project costs
 - Warren Act charges include project repayment costs
 - Revenues collected from Warren Act users, however, are not credited to project repayment
- BOR interprets federal law as providing no authority to allocate Warren Act revenues to specific projects. The Bureau notes that:
 - For other revenues, laws have required that it credit revenues to project repayment
 - The Warren Act is silent with regard to crediting revenues to project repayment.

**GAO Other Issues: Western Area Power
Administration Repayment to Date**

- As of the end of FY 1998:
 - Western's maximum allowable federal investment outstanding was reported to be \$7.39 billion
 - Western's actual federal investment outstanding was reported to be \$6.36 billion
 - Allowable CVP federal investment outstanding was reported to be \$482 million
 - Actual CVP federal investment outstanding was reported to be \$331 million

GAO Other Issues: Glen Canyon Environmental Impact Statement (EIS) Funding

- Some environmental studies initiated in 1982
- Formal EIS began in 1989, and was released in 1995
- EIS funded through Upper Colorado River Basin Fund (UCRBF) power revenues
- EIS cost reported to be about \$7.6 million
- Other various environmental studies cost reported to be about \$83.6 million (for 1983-1997)
- Use of power revenues to pay for EIS not typically as well documented in the budget process as the use of appropriated funds

GAO Other Issues: Glen Canyon EIS Funding

- BOR distinguishes between appropriations and funds available without further appropriation:
 - Use of appropriations is justified in detail
 - Use of funds available without further appropriation is generally not justified in detail
- BOR compiles statements for each hydroelectric project which show how it expects to use power revenues
 - These are not routinely distributed to Congress

GAO Other Issues: CVP Cost Recovery

- Total reported CVP construction costs to date:

	Irrigation	M&I
Allocated Costs	\$1,124,000,000	\$490,000,000
Costs Recovered	\$ 63,000,000	\$ 8,000,000
Balance	\$1,061,000,000	\$482,000,000
Percent Recovered	5.6%	1.6%

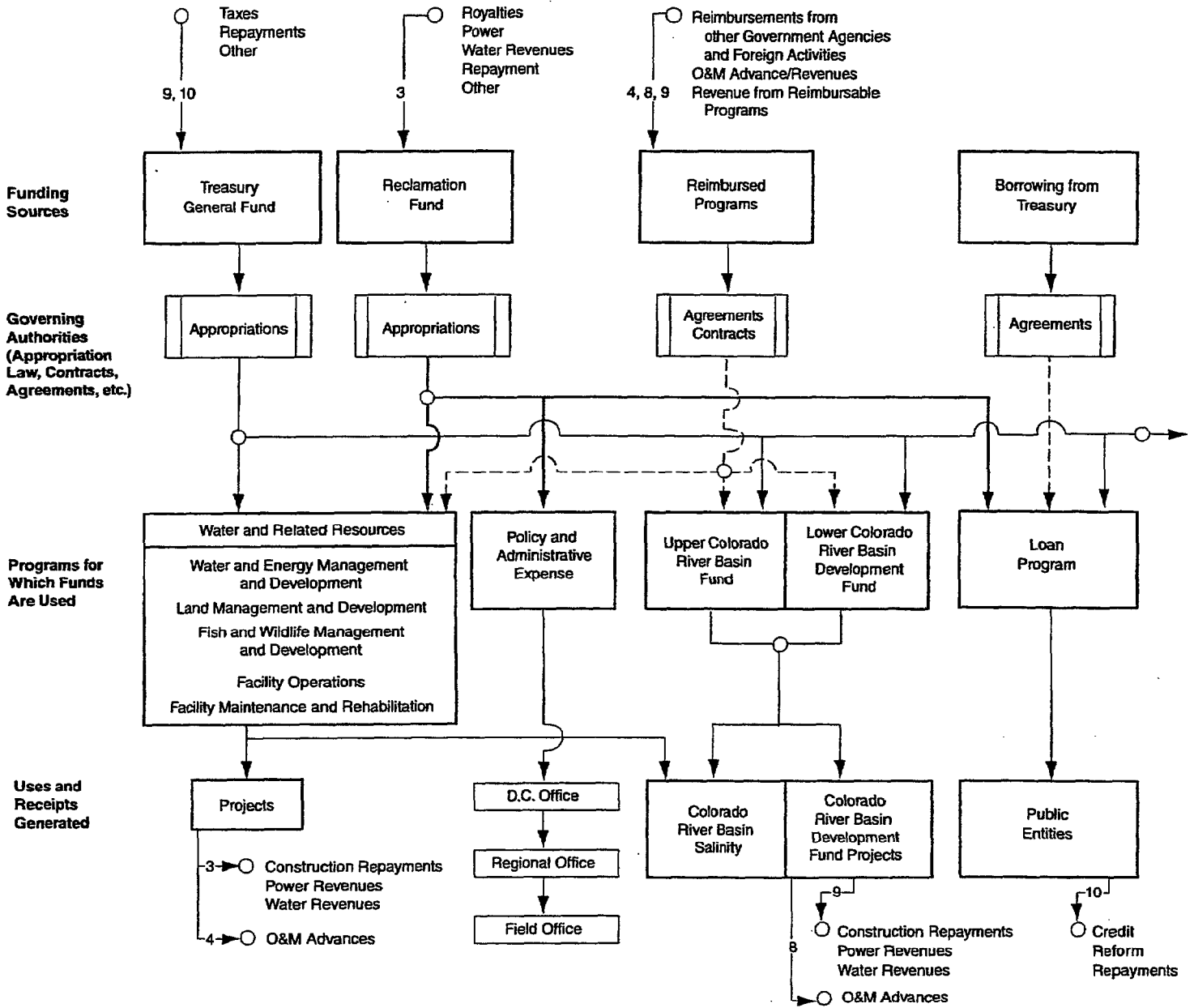
- All main system construction cost and O&M deficit recovery due by the year 2030
- Expiring long-term, fixed-rate contracts being replaced with ones requiring annual adjustments
- **Result:** Higher rates for both irrigation and M&I users likely

GAO Other Issues: CVP Cost Recovery

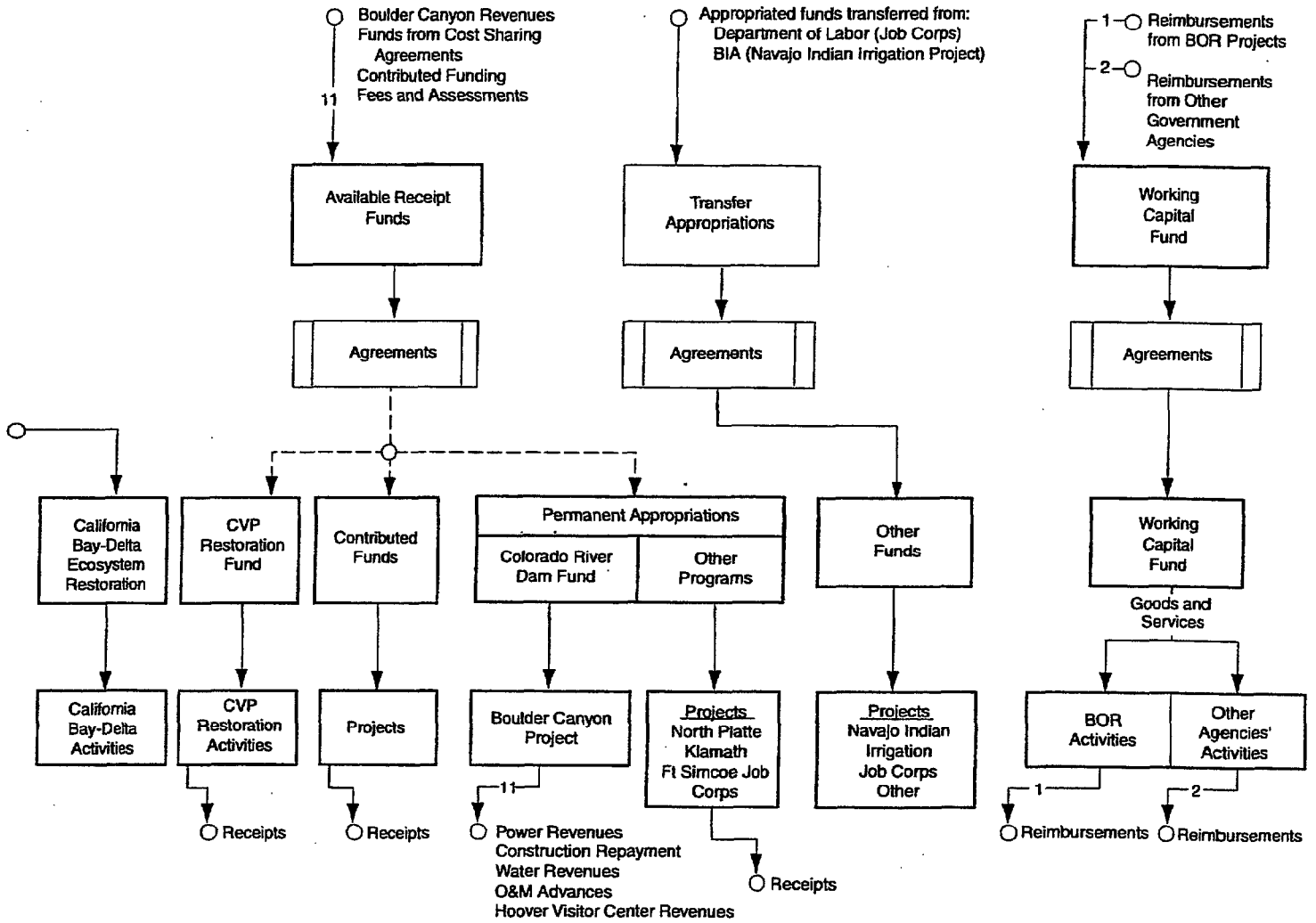
- Reclamation law allows recalculation of irrigators' ability to pay
- Irrigation costs beyond irrigators' ability to pay are shifted to power
- Since 1991, additional Aid to Irrigation (AID) was granted 21 times (totaling about \$14.5 million)
- Many more requests for AID relief expected as contracts expire and are replaced with ones with higher rates
- Uncertain how much additional AID WAPA can recover
- **Result:** The federal government might not recover costs

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Bureau of Reclamation Sources and Uses of Funds



Enclosure 2



Note: The Working Capital Fund can receive direct appropriations if needed.

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