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UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
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SEATTLE, WASHINGTON 98109

8 JAN 19/5 093193

Major General Richard E. McConnell
Division Engineer
North Pacific Division
U.S. Army Corps of Engineers
210 Customs House
Portland, Oregon 97209

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, 1974. The purpose of our review was to determine the reasonableness and propriety of the project financial statements submitted by the North Pacific Division (NPD) to the Bonneville Power Administration (BPA) for inclusion in the fiscal year 1974 FCRPS consolidated financial statements. Our review included an evaluation of financial procedures and controls and an analysis of project accounts to the extent we deemed necessary under the circumstances.

We found that the financial procedures and controls were generally adequate. The following matters requiring corrective action were brought to the attention of responsible district officials and resolved during our review.

1. The financial statements submitted to BPA correctly disclosed that at June 30, 1974, there was a contingent claim for \$16.6 million by the Libby contractor. During our audit, we learned that after June 30 the claim was settled for \$12.5 million, but the Seattle District had not yet notified BPA of the significant event so that the consolidated FCRPS statements could be corrected before issuance.

The financial statements for the Libby Project submitted to BPA for consolidation prior to settlement of this claim had allocated \$6 million for this claim to power. Following our discussion of the importance of disclosing significant events that occur after statement dates, the Seattle District determined that the new allocation to power was \$10 million and sent BPA corrected financial statements. As a result, Construction Work in Progress and Accounts Payable were increased by \$4 million in the consolidated statements.

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2. Our general analysis of the financial statements for the Ice Harbor Project showed that interest on the Federal investment was understated by about \$100,000. Upon rechecking interest computations, Walla Walla District personnel determined that the interest had been understated by about \$115,000, mainly because interest had not been computed on all prior year construction costs of Ice Harbor additional units.

3. The financial statements for the Dworshak Project disclosed \$1.4 million of contractor claims as contingent liabilities. During our detailed analysis, Walla Walla District legal staff told us of additional contractor claims which indicated that the amount of contingent liabilities should be increased by about \$7.7 million. This occurred because the June 30 Quarterly Status Report of Contract Claims and Appeals, upon which contingent liabilities were based, was incomplete.

Similarly, the original financial statements for the Lower Granite Project had omitted contingent liabilities of \$3.7 million for contractor claims.

4. The revised balance sheet for the Lower Granite Project included \$1.1 million of unfunded contractor earnings; however, our detailed analysis showed that the earnings were understated by \$99,000, and that Construction Work in Progress and Accounts Payable should be increased by the same amount.

Corrected statements were prepared by the Walla Walla District for the Ice Harbor, Dworshak, and Lower Granite Projects and sent to BPA.

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 and the prompt action in making the necessary accounting adjustments and revisions of the fiscal year 1974 financial statements.

Sincerely yours,



Philip A. Bernstein
Regional Manager