



U.S. Department of the Interior
Office of Inspector General

AUDIT REPORT

**RECOVERY OF
OPERATION AND MAINTENANCE COSTS,
COLUMBIA BASIN PROJECT,
BUREAU OF RECLAMATION**

**REPORT NO. 95-I-1383
SEPTEMBER 1995**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

SEP 29 1995

MEMORANDUM

TO: The Secretary

FROM: Wilma A. Lewis *W. A. Lewis*
Inspector General *for*

SUBJECT SUMMARY: Final Audit Report for Your Information - "Recovery of Operation and Maintenance Costs, Columbia Basin Project Bureau of Reclamation" (No. 95-I-1383)

Attached for your information is a copy of the subject final audit report.

The Pacific Northwest Region had not ensured that districts benefiting from irrigation water provided by the Columbia Basin Project paid the appropriate share of irrigation operation and maintenance costs, and the Region had not always billed the districts in a timely manner or assessed penalties and interest charges on delinquent payments. We estimated that the Federal Government and power users had paid over \$650,000 of the districts' irrigation operation and maintenance costs and that the Region did not assess or collect interest of over \$70,000 related to district billings.

The Bureau concurred with our six recommendations. To ensure that the districts pay the appropriate share of the irrigation operation and maintenance costs, the Bureau agreed to: assess the districts the full amount of Bureau-incurred overhead costs; require the districts to pay the irrigation-related costs associated with pump replacements; compute the amount of operation and maintenance costs applicable to the districts based on actual direct and indirect costs of performing such work on the pumps; and document the reasons for and the financial impacts of any concessions agreed to in negotiations on irrigation operation and maintenance cost recovery. To correct deficiencies in the billing process, the Bureau established billing time frames for Regional and field office personnel for processing annual irrigation operation and maintenance assessments and agreed to assess late payment interest charges on billings and collect interest charges on late payments.

If you have any questions concerning this matter, please contact me at (202) 208-5745.

Attachment



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL

Headquarters Audits
1550 Wilson Boulevard
Suite 401
Arlington, VA 22209

SEP 29 1995

To: Assistant Secretary - Water and Science

From: **Marvin Pierce** *for Judy Harrison*
Acting Assistant Inspector General for Audits

Subject: Final Audit Report on the Recovery of Operation and Maintenance Costs, Columbia Basin Project, Bureau of Reclamation (No. 95-I-1383)

This report presents the results of our review of the recovery of operation and maintenance costs on the Columbia Basin Project by the Bureau of Reclamation. The objective was to determine whether the Pacific Northwest Region's financial management practices for recovery of the Project's reimbursable costs for irrigation operation and maintenance complied with Reclamation law and Instructions and adequately protected the Government's interests. We also followed up on actions taken to implement a prior report's recommendations concerning the billing of irrigation operation and maintenance costs.

We concluded that the Region had not ensured that districts benefiting from the irrigation water provided by the Project paid the appropriate share of irrigation operation and maintenance costs and that the Region had not always billed the districts in a timely manner or assessed penalties and interest charges on delinquent payments. We estimated that the Federal Government and power users may have paid over \$650,000 of the districts' irrigation operation and maintenance costs and that the Region did not assess or collect interest of over \$70,000 related to district billings.

To correct the problems noted, we made six recommendations. To ensure that the districts pay the appropriate share of the irrigation operation and maintenance costs, we recommended that the Bureau assess the districts the full amount of Bureau-incurred overhead costs; require the districts to pay the irrigation-related costs associated with pump replacements; compute the amount of operation and maintenance costs applicable to the districts based on actual direct and indirect costs of performing such work on the pumps; and document the reasons for and the financial impacts of any concessions agreed to in negotiations on irrigation operation and maintenance cost recovery. To correct problems in the billing process, we recommended that the Bureau establish billing time frames for Regional and field

office personnel for processing annual irrigation operation and maintenance assessments and assess late payment interest charges on all billings and collect interest charges on all late payments.

The August 30, 1995, response (Appendix 2) to our draft report from the Acting Commissioner concurred with all six recommendations and was sufficient for us to consider one recommendation resolved and implemented and five recommendations resolved but not implemented. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and no further response to the Office of Inspector General is required (see Appendix 3).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

cc: Commissioner, Bureau of Reclamation

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INTRODUCTION

BACKGROUND

The Bureau of Reclamation's Pacific Northwest Region is responsible for operating and maintaining the facilities of the Columbia Basin Project originally called the Grand Coulee Dam Project, as authorized by the Congress on March 10, 1943. Essentially, the Region maintains Project facilities that generate power or that provide water to multiple irrigation districts, creating multipurpose benefits which include irrigation and fish and wildlife. Project facilities that provide water to a single irrigation district are maintained by that district. The Bureau has contracted with irrigation districts to obtain repayment of the Project's reimbursable construction, operation, and maintenance costs associated with irrigation. The Bonneville Power Administration is responsible for the repayment of the reimbursable construction, operation, and maintenance costs associated with power production. Information on the Project's construction cost allocation and repayment revenue sources, along with the typical annual operation and maintenance costs allocated to the various purposes, is summarized as follows:

	Irrigation Function	Power Function	Other Functions	Function Totals
(Amounts in Millions)				
Construction Costs	<u>\$649.1</u>	<u>\$990.7</u>	<u>\$82.8</u>	<u>\$1,722.6</u>
Repayment Responsibility				
Beneficiaries	\$135.5	\$990.7		\$1,126.2
State & Local Agencies	17.4		\$.1	17.5
Irrigation Assistance*		496.2	.4	496.6
Settlement Land Revenues			8.5	8.5
Nonreimbursable**	_____	_____	<u>73.8</u>	<u>73.8</u>
Total	<u>\$152.9</u>	<u>\$1,486.9</u>	<u>\$82.8</u>	<u>\$1,722.6</u>
Operation and Maintenance				
Costs for 1992	<u>\$3.4</u>	<u>\$28.1</u>	<u>\$2.7</u>	

*Irrigation assistance is the amount of reimbursable irrigation construction costs required by Reclamation law and policy to be repaid to the U.S. Treasury. When such costs are beyond the ability of the irrigators to pay, the costs are repaid by power users after they have repaid the power investment debt.

** Nonreimbursable costs are those costs for Federally constructed water and power development projects that are not required by Reclamation law and policy to be repaid to the U.S. Treasury. The repayment of nonreimbursable costs is borne by the general taxpayers.

¹Cost allocation is the distribution of the costs of multiple-purpose projects among the purposes served, such as irrigation and power, so that project beneficiaries share equitably in the recovery of costs.

The Bureau's master repayment contracts with the irrigation districts require repayment of reimbursable construction costs over 50 years and advance payment of the annual irrigation operation and maintenance costs in two installments. The Bonneville Power Administration reimburses power operation and maintenance costs to the Bureau annually and repays power construction costs with interest over a 50-year period.

OBJECTIVE AND SCOPE

The audit objective was to determine whether the Region's financial management practices for recovery of the Project's reimbursable costs for irrigation operation and maintenance complied with Reclamation law² and Instructions and adequately protected the Government's interests. Our review was conducted at the Bureau's Pacific Northwest Region, located in Boise, Idaho. As part of the review, we followed up on actions taken to implement a prior report's recommendations concerning the billing of irrigation operation and maintenance costs.³ Because of the deficiencies noted in our previous report, we also reviewed the processes for billing irrigation construction costs. We reviewed the 24 Project billings for irrigation operation and maintenance (15 billings) and construction costs (9 billings) for calendar years 1991 through 1993.

This review was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. As part of this audit, we evaluated the Region's system of internal controls related to the computing, billing, and collecting of operation, maintenance, and construction charges to the extent we considered necessary to accomplish the audit objective. We also determined that the material weakness reported in the Secretary of the Interior's fiscal year 1993 Annual Statement and Report, required by the Federal Managers' Financial Integrity Act, concerning inadequate policies and procedures for the recovery of operation and maintenance program expenses still existed for the Columbia Basin Project. Further, a weakness in the Region's processes for billing and collecting Project operation, maintenance, and repayment costs decreases the amount of Project costs recovered from benefiting irrigation districts. Our recommendations, if implemented, should rectify these weaknesses on the Columbia Basin Project.

²Reclamation law is a term used to refer to the total body of public laws governing the reclamation program, beginning with the Reclamation Act of 1902 and including all laws amending and supplementing the Act.

³See "Recovery of Operation and Maintenance Program Expenses, Bureau of Reclamation" (No. 92-I-269), dated December 1991, in the Prior Audit Coverage section of this report.

PRIOR AUDIT COVERAGE

In December 1991, the Office of Inspector General issued the report “Recovery of Operation and Maintenance Program Expenses, Bureau of Reclamation” (No. 92-I-269). The report concluded that the Bureau: (1) either did not bill or did not bill in a timely manner for reimbursable expenses; (2) did not properly assess charges for delinquent payments; and (3) did not have necessary guidelines for operation and maintenance expense allocations to ensure that reimbursement allocations conformed to Reclamation policies and guidelines. In response to the recommendations, the Bureau stated that it had issued a September 25, 1991, memorandum directing the regional offices to comply with Bureau policies and contractual agreements for issuing billings for operation and maintenance expenses and for assessing penalties on late payments. The Secretary of the Interior’s fiscal year 1993 Annual Statement and Report stated that the Bureau plans to issue guidelines in September 1995 for allocating project operation and maintenance expenses to address the noted material weaknesses.

FINDINGS AND RECOMMENDATIONS

A. RECOVERY OF OPERATION AND MAINTENANCE COSTS

The Pacific Northwest Region has not ensured that districts benefiting from irrigation water provided by the Columbia Basin Project pay the appropriate share of irrigation operation and maintenance costs. Reclamation Instructions and contract terms require the Region to recover reimbursable operating costs from benefiting irrigation districts. However, the Region, in determining the recoverable irrigation operation and maintenance costs, limited the administrative costs and appears to have understated repayment of some irrigation operation and maintenance costs, thereby shifting the costs to power users and to the Federal Government. As a result, the Federal Government and power users may have paid irrigation operation and maintenance costs of over \$650,000 that should have been borne by the benefiting districts.

The Region incurs costs to operate and maintain facilities that provide irrigation water to districts and that generate power. By contract, the Bureau recovers the irrigation operation and maintenance costs through the use of a fixed-rate charge per acre-foot of water provided by the Project to the districts. This fixed rate is determined every 5 years and is based on the estimated irrigation operation and maintenance costs to be incurred and on the amount of water to be diverted to the districts. At the end of each 5-year period, the actual costs of operating and maintaining the facilities are reconciled to the cumulative amount of the payments made by the districts to determine any shortage or surplus. A shortage or a surplus is added to or deducted from, respectively, the estimated costs for the next 5-year period.

Current repayment contracts with the districts state, “The costs which make up the various obligations to be paid by the District(s) to the United States . . . shall embrace all expenditures required to be made by the United States under the terms of this contract.” Further, Parts 473 and 491 of Reclamation Instructions require that an “equitable distribution and assessment of indirect costs to all benefiting activities” be made and that indirect costs be fully recovered whenever permissible under contractual agreements. However, the Region’s irrigation operation and maintenance cost recovery agreement with the districts: (1) used fixed overhead rates that limited recovery of Bureau-incurred administrative costs; (2) shifted reimbursement responsibility for some pumping plant costs to power purposes based on the ratio of current irrigation water provided to pumping plant capacity and (3) classified pump repairs as construction costs to be partially financed and paid for by power users and by taxpayers.

Overhead

The agreement between the Region and the districts for the 5-year period ended December 31, 1994, included provisions that limited administrative overhead costs

to a maximum of 15 percent of direct costs. As a result of these fixed overhead rates, power users and the general taxpayers paid about \$150,000 of the districts' 1992 and 1993 administrative overhead costs. This reduction in cost recovery from the districts was funded by transfers of overhead costs to the power function (\$132,000) and to nonreimbursable functions (\$18,000).

Pumping Plant Costs

The agreement also allowed the Region to shift irrigation pumping plant operation and maintenance costs to the power function. In the late 1970s and early 1980s, six new pumps with power generation capabilities were added to the Project to provide additional energy production capability and increased pumping capacity for future Project agricultural development. These new pump generators also provide additional capability to meet irrigation needs; however, the original six pumping units have the capacity and capability to meet the entire irrigation demand. Furthermore, no significant acreage of additional Project lands has been developed since 1984, and the six new pump generators have not directly generated power. However, the Region agreed with the districts to allocate a portion of the irrigation operation and maintenance costs for these six original pumps to the power users. During the 5-year period ended December 31, 1994, we estimated that the Region shifted to the power function over \$1.5 million of the costs to operate and maintain the six original pumps that could theoretically have supplied all the irrigation water used on Project lands over the last 40 years. While the Congress has authorized the use of power revenues to subsidize irrigation construction costs, we are not aware of any authority to subsidize irrigation operation and maintenance costs. This transfer of pumping plant costs to the power function appears to have resulted in an annual subsidy to the districts of as much as \$300,000.

Pump Repair Costs

During the most recent 5-year period, the Region also replaced worn components on a pump at a total cost of \$2.3 million. By mutual agreement between the Region and the districts, the districts paid for only half, or about \$1.15 million, of this cost, even though the water lifted by the pumps was used primarily to meet irrigation demands. The cost of this capitalized operation and maintenance expense eventually will be repaid by power users in the form of irrigation assistance, which will be remitted to the U.S. Treasury over a 40- to 50-year period. Thus, the Government will receive, in present value⁴ dollars, about \$70,000⁵ from power users in return for over a \$1 million investment to maintain a pump that has essentially provided water to Project irrigation districts.

⁴A financial term referring to the time value of money, which recognizes that interest on money makes \$1 earned in the future worth less than \$1 earned today. For example, assuming an interest rate of 8 percent, \$1 due in 10 years is worth only \$.46 today.

⁵Computed using an assumed interest rate of 7 percent and a 40-year repayment period.

We attempted to determine whether the Region obtained any concessions from the districts in exchange for these annual operating subsidies. Regional and Project officials informed us that the districts had made “valuable” operational flexibility concessions to the Region, in part for these subsidies. The Project office had numerous files regarding these meetings and discussions. However, no formal estimates or determinations were made of the financial impacts of the Region’s or the districts’ concessions. Further, the meetings and discussions regarding concessions between the Region and the districts were not formally recorded.

Without documentation and financial analyses to evaluate these concessions, we believe that the Region, in its current discussions concerning the recovery of operation and maintenance costs, should: (1) attempt to recover all applicable overhead costs from the district; (2) avoid shifting irrigation operation and maintenance costs to power users; and (3) ensure that pump repairs resulting from irrigation use are not funded with power user and Federal funds. Such changes would accurately allocate the costs of irrigation operation and maintenance to the functions and recipients that benefit from the expenditures rather than subsidize irrigation operation and maintenance costs at the expense of Federal taxpayers and power users.

Recommendations

We recommend that the Commissioner, Bureau of Reclamation, ensure that the Pacific Northwest Region:

1. Assesses the districts the full amount of Bureau-incurred overhead costs relating to the irrigation function, as reflected in the official accounting records for the Project.
2. Requires the districts to pay the irrigation-related costs associated with pump replacements.
3. Computes the amount of operation and maintenance costs applicable to the districts based on the actual direct and indirect cost of performing such work on the pumps.
4. Documents the reasons for, and the financial impact of, any concessions agreed to in negotiations on irrigation operation and maintenance cost recovery for the 1995 through 1999 agreement period and subsequent periods.

Bureau of Reclamation Response

The August 30, 1995, response (Appendix 2) to the draft report from the Acting Commissioner concurred with the four recommendations.

Recommendation. The Bureau stated that the overhead rate relating to the irrigation function will be “revised and adjusted” to reflect the Bureau’s actual overhead that is associated with operation and maintenance activities.

Recommendations 2 and 3. The Bureau stated that it will charge, to the districts, the irrigation-related costs associated with the pump replacement and the costs of operating and maintaining the pumping plant. The Bureau stated that it does not agree that the allocation formula and methodology resulted in inappropriate irrigation subsidies as estimated in our draft report. However, the Bureau said that it “does believe that a new procedure which assigns actual direct and indirect costs would provide a greater degree of certainty that irrigation related costs are being borne by the districts.”

Recommendation 4. The Bureau stated that it will document and determine the financial impacts of concessions that result from rate-setting meetings.

Office of Inspector General Comments

Based on the response, we consider the four recommendations resolved but not implemented. Accordingly, the recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

B. PROCESSES FOR BILLING AND COLLECTION

The Bureau's Pacific Northwest Region has not always billed the districts in a timely manner or assessed penalties and interest charges on delinquent payments. In response to the recommendations made in our December 1991 audit report, the Bureau issued a directive for its regional offices to comply with Reclamation policies and contractual agreements for debt collection activities. However, the Pacific Northwest Region has not complied with this directive in charging districts for the costs associated with the operation and maintenance and the repayment of irrigation facilities. As a result, the Region did not assess and collect about \$70,400 in late payment interest penalties during 1991 through 1993.

Billings

Billing and remittance requirements for the Project are detailed in the districts' master repayment contracts. Under these contracts, annual operation and maintenance costs are billed in advance in two installments. The first installment is due on April 30, and the second installment is due on June 30 of each year. Reclamation Instructions and accepted business practices also provide for the timely billing of amounts owed. However, our review of the 15 operation and maintenance billings for the 3-year period ended December 31, 1993, showed that all the billings were issued late. According to Regional officials, the current delays in meeting the contractual billing time frames occurred because of (1) a billing process in which regionally prepared billings were reviewed by field offices; (2) the Region's practice of billing districts on the basis of actual expense information rather than on cost estimates; and (3) the lack of centralized authority and responsibility for billing the districts on time. Such delayed billings provided the districts with extra time before their payments became due, allowing the districts to potentially earn interest on the funds while increasing the interest costs incurred by the Government (estimated at \$18,000 for the last 3 years) to finance these costs before payment was received.

Penalties and Interest

Although the nine remittances for Project operation and maintenance and repayment billings issued during the 3-year period ended December 31, 1993, were received late, the Region had not assessed interest penalties. We found that the Region did not charge and recover interest charges totaling \$47,500 on late irrigation operation and maintenance payments and \$4,900 on late irrigation construction charges. According to the master repayment contracts with the districts, Project irrigation construction costs are repaid interest free over a 50-year period, with each installment due on June 30 of each year. The master repayment contracts with the districts also provide for the assessment of an interest penalty of one-half of 1 percent a month on late remittances of repayment or operation and maintenance billings. However, interest charges of \$52,400 were not assessed, according to Regional officials, because of problems in the Region's and Project's billing system and procedures.

In our December 1991 report, we found that billings had been delayed and penalties for late payments had not been assessed, which cost the Government over \$47,000, of which about \$30,000 was attributable to the Pacific Northwest Region's Columbia Basin Project. At that time, Regional officials attributed billing delays primarily to a new financial accounting system, which did not provide timely data on actual costs used to adjust advance billings, and attributed the lack of penalties on delinquent payments to oversights. However, the billing and collecting deficiencies have not been corrected and have cost the Federal Government over \$100,000 exclusive of Federal financing costs (\$70,400 identified in our current audit and \$30,000 in our 1991 audit).

Recommendations

We recommend that the Commissioner, Bureau of Reclamation, ensure that the Pacific Northwest Region:

1. Establishes billing time frames for Regional and field office personnel to process annual irrigation repayment and operation and maintenance assessments to meet contractual requirements. If such billings cannot be processed timely because of a lack of actual expense information, the Region should be required to use estimated information for billings and adjust to actual costs in future bills.
2. Assesses late payment interest charges on all billings and collects interest charges on all late payments, including those identified in our December 1991 report.

Bureau of Reclamation Response

The August 30, 1995, response (Appendix 2) to the draft report from the Acting Commissioner concurred with the two recommendations.

Recommendation 1. The Bureau stated that procedures have been implemented by the Region and field offices for the timely processing of billings.

Recommendation 2. The Bureau stated that the Region will assess and collect interest charges on late payments for billings as provided for in the agreements with the irrigation districts. In addition, the Bureau stated that it will review the circumstances regarding the prior billings identified in the report and will initiate efforts to collect the charges that are attributable to the districts' actions.

Office of Inspector General Comments

Based on the response, we consider Recommendation 1 resolved and implemented and Recommendation 2 resolved but not implemented. Accordingly, Recommendation 2 will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

APPENDIX 1

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Area</u>	<u>Funds To Be Put To Better Use</u>
Operation and Maintenance	
Overhead Recovery (annual)	\$18,000
Pump Repair Financing	1,000,000
Billing and Collection	
Unassessed Interest (3-year amounts)	52,400
Billing Delays (3-year amounts)	<u>18,000</u>
Total	<u>\$1,088,400</u>



United States Department of the Interior

APPENDIX 2
Page 1 of 7

BUREAU OF RECLAMATION
WASHINGTON, D.C. 20240-2
FAS SEP

IN REPLY
REFER TO:

D-5010
ADM-8.00

DEPT. OF THE INTERIOR

AUG 30 1995

MEMORANDUM

To: Office of Inspector General
Attention: Assistant Inspector General for Audits

From: Daniel P. Beard
Acting for Commissioner

Christopher Z Kenney

Subject: Draft Audit Report on Recovery of Operation and Maintenance Costs, Columbia Basin Project, Bureau of Reclamation (Assignment No. W-IN-BOR-002-94)

The Bureau of Reclamation offers the following comments in response to the recommendations in the subject report.

That the Commissioner, Bureau of Reclamation, ensure that the Pacific Northwest Region:

Recommendation A. 1

Assesses the districts the full amount of Bureau-incurred overhead costs, relating to the irrigation function, as reflected in the official accounting records for the Project.

Response

Concur. The overhead rate will be revised and adjusted to reflect Reclamation's actual overhead associated with operation and maintenance activities to include costs relating to the irrigation function. Reclamation will change from the current freed-rate method to a percentage of direct costs that are linked to operation and maintenance activities performed to supply water to the irrigation districts.

The target date for completion of this effort is October 1, 1996. The responsible official is the Regional Director, Pacific Northwest Region.

Recommendation A.2

Require the districts to pay the irrigation related costs associated with pump replacements.

Response

Concur. See response to A.3.

Recommendation A.3

Computes the amount of operation and maintenance costs applicable to the districts based on the actual direct and indirect cost of performing such work on the pumps.

Response

Concur. Reclamation operates the Grand Coulee complex, including the pumping plant and all the pumps therein, for multiple-use objectives. The irrigation related costs associated with the pump replacement and the operation and maintenance of the pumping plant will be determined and charged to the districts.

The current allocation formula and methodology was developed to distribute costs equitably while allowing the United States to both meet its contractual commitments to the districts and operate the total system in an effective and efficient manner. Reclamation does not agree that the current allocation formula and methodology resulted in inappropriate irrigation subsidies as estimated in the draft report (Appendix 1). However, Reclamation does believe that a new procedure which assigns actual direct and indirect costs would provide a greater degree of certainty that irrigation related costs are being borne by the districts.

The following target dates and steps are being established to implement Recommendations A.2 and A.3:

By October 1995, meet with the districts to establish an interim rate for 1996. Advise the districts of the findings of this audit and establish a committee or work group with district participation to develop procedures to implement the recommendations.

By October 1996, develop a model (including criteria, procedures, data base, etc.) to identify actual direct and indirect pumping plant costs related to irrigation.

By October 1997, test the new model, including comparison of results to current methodology. Refine the model and procedures as needed and utilize in setting the diversion rate for future periods.

The target date for completion is October 30, 1997, with interim target dates as indicated above. The responsible official is the Regional Director, Pacific Northwest Region.

Recommendation A.4

Documents the reasons for, and the financial impact of, any concessions agreed to in negotiations on irrigation operation and maintenance cost recovery for the 1995 through 1999 agreement period and subsequent periods.

Response

Concur. Reclamation will document and determine the financial impacts of concessions, if any, that result from the rate-setting meetings with the irrigation districts.

The target date for completion is October 1, 1996. The responsible official is the Regional Director, Pacific Northwest Region.

Recommendation B. 1

Establishes billing time frames for Regional and field office personnel to process annual irrigation repayment and operation and maintenance assessments to meet contractual requirements. If such billings cannot be processed timely because of a lack of actual expense information, the Region should be required to use estimated information for billings and adjust to actual costs in future bills.

Response

Complied. The Pacific Northwest Region and field offices have developed and implemented procedures to ensure that billings for operation and maintenance are issued in a timely manner so payments can be made by the contract due dates. Attached is a copy of the procedures.

Recommendation B.2

Assesses late payment interest charges on all billings and collect interest charges on late payments. including those identified in our December 1991 report.

Response

Concur. Reclamation's Pacific Northwest Regional Finance Office will assess and collect interest charges on late payments for billings to the Columbia Basin Districts as appropriate and as provided for in the agreements with the irrigation districts. Procedures have been established to ensure that, in the future, interest charges on late payments will be billed in a timely manner (see response to Recommendation B. 1). Billing statements for fiscal year 1995 reflecting the region's revised billing procedures have been issued to water users. All fiscal year 1995 billing statements reflected actual expense information.

Reclamation will review the facts and circumstances regarding the retroactive late charges identified in the report. A portion of those charges is likely attributable to system problems and other difficulties which resided in Reclamation. Reclamation will initiate efforts, as appropriate, to collect those charges which are attributable to actions (or lack thereof) of the districts.

The target date for completion is October 1, 1996. The responsible official is the Regional Director, Pacific Northwest Region.

If you have any questions or require additional information, please contact Luis Maez at (303) 236-3289, extension 245.

Attachment

cc: Assistant Secretary - Water and Science, Attention: Margaret Carpenter
Office of Financial Management, Attention: Wayne Howard
(w/o att to each)

AUG 1 1985

EPH-2000
FIN-6.00/PRJ-5.00

MEMORANDUM

To : Regional Director, Boise ID)
Attention: PN-1820
Upper Columbia Area Office, Yakima WA
Attention: UCA-1700

From : William D. Gray
Manager, Ephrata Field Office

Subject: Reserved Works Billing Procedures

The Office of Inspector General, in their draft report on Recovery of Operation and Maintenance Costs for the Columbia Basin Project, noted a recurring problem in the lateness of billings to the irrigation districts. The process which results in the billing involves the Region, Upper Columbia Area, and the Ephrata Field Office.

Attached is a narrative which has been developed and reviewed by the various offices identifying the information or work product needed from each office to complete the yearly budget/billing cycle for the Reserved Works!. As we work through this coming year, please note any changes or additions which need to be made to the document.

William D. Gray

Attachments

cc: Regional Director, Boise ID
Attention: PN-1824 and PN-1828 (both w/encl)

BILLING STEPS FOR COLUMBIA BASIN PROJECT RESERVED WORKS

Article 43 of the Amendatory Repayment Contracts between the East, South, and Quincy-Columbia Basin Irrigation Districts states, "That no penalty shall be charged to or be paid by the District on any delinquent installment or charge unless such delinquency continues for more than 30 days: provided, further, That said 30 days shall not start within 20 days of receipt of billings. " Based on this language we will need to send the operation and maintenance billings to the Districts by March 10 in order to receive payment by April 30 for the first half billing and May 10 in order to receive payment by June 30.

Backing into our billing based on the above condition will require the following schedule and steps.

Mid August, Ephrata Field Office sends a letter to the Reserved Works Committee outlining the coming calendar year budget. Example: August 15, 1991 letter to the Chairman of the Reserved Works Committee Subject: FY92 Reserved Works Budget. This notifies the Districts of the estimated power charge and estimated O&M by September 1 which is required by Article 40d of the Repayment Contract.

In early September, a letter is sent to the Districts providing the O&M Budget for the following CY. This letter takes into account any input from the Reserved Works Committee and changes that Reclamation might have made. See attached September 6, 1991 letter as an example. This also notifies the Districts that they will be billed early in the following year using actuals from the prior year.

By the first week of March, Water Diversion Records for the prior year are completed by the Ephrata Field Office, EPH-2900 (Francis Jensen) and transmitted to the Regional Director, Attention: PN-1824 (Diane Pride). This provides the actual water use and the percentage of use by each district which is needed for the breakdown of cost and QB revenue split for the billing. With this information, PN-1824 completes the Status of the Diversion Rate and provides the data to PN-1828 (Kay Henson) who processes the billing and sends the first and second half to the Districts by March 10 and May 10, respectively.

If the Ephrata Field Office cannot meet this date, EPH-2900 will notify PN-1824 and/or PN-1828 by March 1 and provide an estimate of water use based on the preceding year's use. PN-1828 will issue the first half estimated billing based on this estimate. The second half billing will be adjusted based on the actual when the calculations are completed.

After updating the data based on actual water use, PN-1824 transmits by memorandum the 10 enclosures detailed in the attached memorandum dated March 16, 1995, to the Ephrata Field Office .

The Ephrata Field Office Budget Assistant and Area Office Budget Officer complete the "Estimate of O&M For Calendar Year 199_," "Distribution of 199_ Estimated Cost (Based on 199_ Actual Diversions) ," "Quincy Ground Water Subarea" revenue status, and "Potholes Bank Storage" revenue status. Data for the last two items is developed by the Ground Water Administrative Assistant EPH-2606 (Jean Cheesman) . These are combined with the incoming data from the Region and sent to the Districts. See attached example dated March 24, 1995. This letter also provides the water use and percent breakdown per district and historically has been sent just before the first half billings. There are 13 attachments to this letter, Boise prepares 1-5 and 9-13. Ephrata and the Area Office prepares 6-8.

If the water diversion information is not available and an estimate is used, the above-referenced letter cannot be completed and sent prior to the first half billing. Attachment 1 of this letter requires actual use data and ultimately determines the surplus or deficit from the preceding year by which the billing will be adjusted.

This process should result in billings to the Districts and paid by April 30 and June 30, respectively.

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/ Recommendation Reference	status	Action Required
A1, A.2, A.3, A.4, and B.2	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of Implementation.
B.1	Implemented.	No further action is required.

**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
THE OFFICE OF INSPECTOR GENERAL BY:**

Sending written documents to:

Calling:

Within the Continental United States

U.S. Department of the Interior
Office of Inspector General
P.O. Box 1593
Arlington, Virginia 22210

Our 24-hour
Telephone HOTLINE
1-800-424-5081 or
(703) 235-9399

TDD for the hearing impaired
(703) 235-9403 or
1-800-354-0996

Outside the Continental United States

Caribbean Area

U.S. Department of the Interior
Office of Inspector General
Caribbean Region
Federal Building & Courthouse
Veterans Drive, Room 207
St. Thomas, Virgin Islands 00802

(809) 774-8300

North Pacific Region

U.S. Department of the Interior
Office of Inspector General
North Pacific Region
238 Archbishop F.C. Flores Street
Suite 807, PDN Building
Agana, Guam 96910

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