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United States Government **Department of Energy**

memorandum

DATE: February 22, 1996

REPLY TO
ATTN OF: IG-30

SUBJECT: Alaska Power Administration Fiscal Year 1995 Financial Statement Audit Under the Chief Financial Officers Act (WR-FC-96-03)

TO: Administrator, Alaska Power Administration

The attached report presents the results of the independent certified public accountant's audit of the Department of Energy's Alaska Power Administration's (Alaska) financial statements as of September 30, 1995. The auditors have expressed an unqualified opinion on the 1995 statements. Their reports on Alaska's internal control structure and on compliance with laws and regulations are also provided.

The Alaska Power Administration operates and maintains two hydoelectric projects that include five generator units, three power tunnels and penstocks, and over 88 miles of transmission line. Additional information about Alaska Power Administration is provided in the notes to the financial statements.

The 1995 financial statement audit was made under the provisions of the Inspector General Act (5 U.S.C. App.), as amended, the Chief Financial Officers (CFO) Act (31 U.S.C. 1500), and Office of Management and Budget implementing guidance to the CFO Act. The auditor's work was conducted in accordance with generally accepted government auditing standards. To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG Peat Marwick (KPMG) to conduct the audit for us, subject to our review.

The auditor's report on Alaska's internal control structure disclosed no reportable conditions that could have a material effect on the financial statements. The auditor also considered the overview and performance measure data for completeness and material consistency with the basic financial statements, as noted in the internal control report. The auditor's report on compliance with laws and regulations disclosed no instances of noncompliance by Alaska.

During the course of the audit, KPMG identified certain other matters which, although not material to the financial statements, nevertheless warrant management's attention.

Further discussion on steps to improve these conditions are included in the attached management letter.

We believe that the financial statements, together with KPMG's opinion and our review of that work, provide Alaska management and the Department of Energy's Chief Financial Officer with a basis for evaluating Alaska's financial position and progress.

In accordance with Department Order 2320.2B, "Establishment of Departmental Position on Inspector General Reports," as amended by the October 11, 1994, memorandum on "Implementing Guidelines for Streamlining Pilot," no further action is required because the report contains no findings or recommendations.

Gregory H. Friedman
Deputy Inspector General
for Audit Services

Attachments

cc: Audit Liaison, Alaska Power Administration
(w/o attachments)
Director Audit Liaison Division (CR-33) (w/o attachments)

IG Report No. WR-FC-96-03

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2. What additional information related to findings and recommendations could have been included in this report to assist management in implementing corrective actions?

3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?

4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

Please include your name and telephone number so that we may contact you should we have any questions about your comments.

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KPMG

ALASKA POWER ADMINISTRATION

Combined Financial Statements,
Schedules and Supplemental Reports

September 30, 1995 and 1994

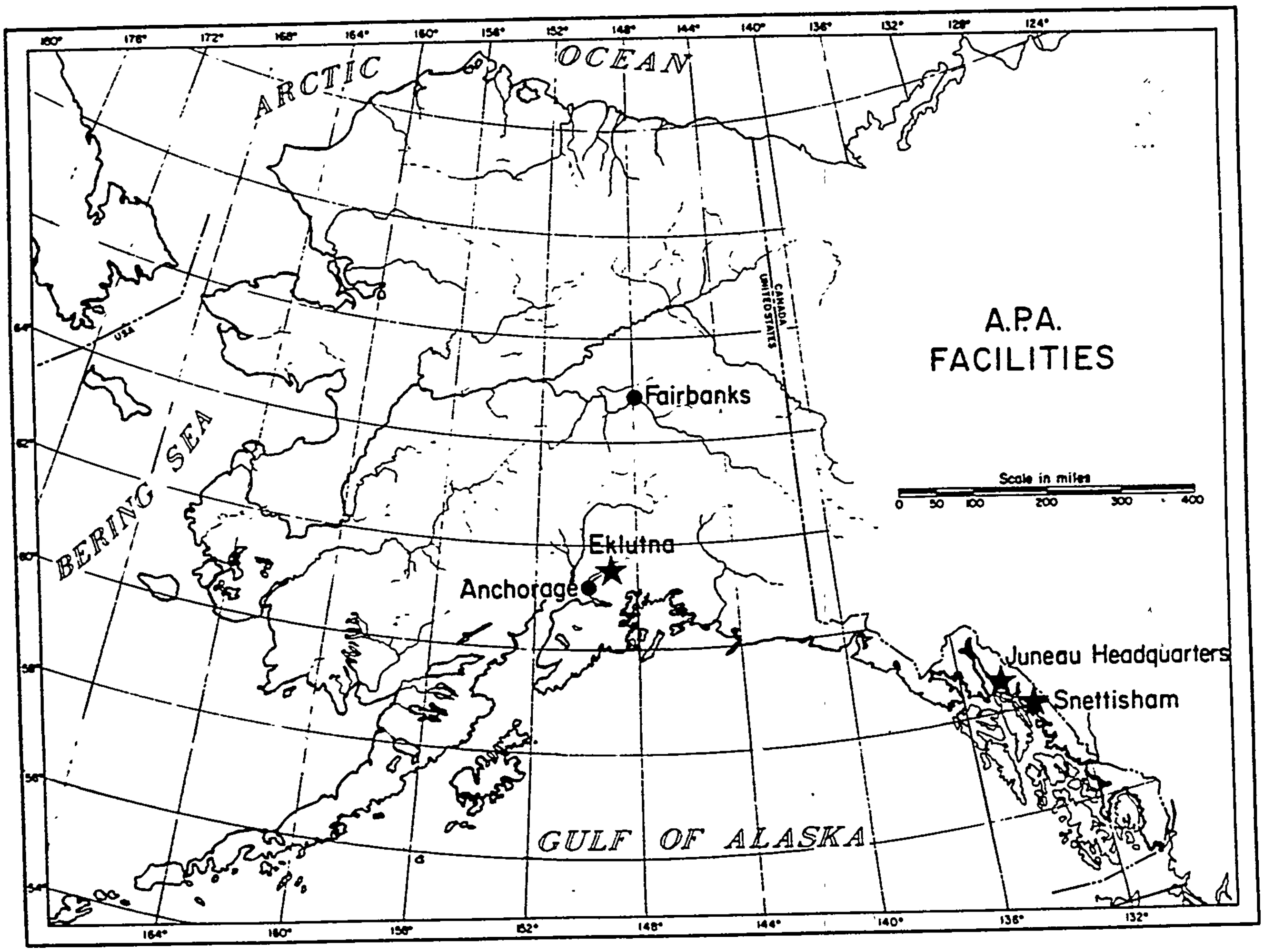
(With Independent Auditors' Report Thereon)

TABLE OF CONTENTS

Overview

MISSION

Alaska Power Administration (APA) will continue to encourage economic and industrial development in Alaska, and repay the taxpayers' investment by providing and marketing reliable hydroelectric power generated at its facilities. We will market the power at the lowest rates possible, and operate and maintain our generation and transmission facilities in a safe and environmentally-sensitive manner consistent with sound business principles.



Overview

FISCAL YEAR 1995 ACCOMPLISHMENTS

- APA operated and maintained two hydroelectric projects that includes five generator units, three power tunnels and penstocks, over 88 miles of transmission line through remote Alaska terrain, four substations, dormitory, airstrip, a boat and barge basin, and other supporting maintenance facilities. Highlights include:

  - The Eklutna powerplant has provided reliable power deliveries for 41 years. APA is in the process of replacing the main power equipment at the plant. We exercised an option in the transformer contract, that was awarded in FY 1994, to purchase a second power transformer for the Eklutna Project. Both of the power transformers were delivered, installed and made operational during FY 1995 at a cost of $678,411.00

  - The largest contract ever awarded by APA to date was for the generator rewind and upgrade at Eklutna in the amount of $3,419,621.34. Site work should begin in August of 1996 with completion in June of 1997.

  - Maintained an availability rate of 99.96% for generation and 99.99% for transmission capacity.

  - No environmental or safety violations were identified at APA facilities by regulatory authorities, and in-house comprehensive safety and environmental inspections resulted in no major identifiable problems.

  - The promotion of pollution prevention continues to be a highlight of APA's environmental quality program. APA's Snettisham and Eklutna Projects are operated as conditionally exempt small quantity hazardous waste generators, which are exempt from most requirements. As in past years, APA operations are not required to operate under air and water quality permit requirements, because our hazardous discharges to the air and water are either minimal (non-regulated) or non-existent.

- Eklutna rate activities for FY 1995: APA received final Federal Energy Regulatory Commission (FERC) approval for rates at the Eklutna Project through September 30, 1999. The rates had been approved on an interim basis by the Deputy Secretary of Energy in FY 1994.

- A new contract for firm power sales from the Eklutna Project was signed with the Eklutna customers in December of 1994.

Overview

- Snettisham rate activities for FY 1995: In May 1995, APA received interim approval from the Deputy Secretary of Energy for an 8.1% rate increase for energy sold from the Snettisham Project. Final FERC approval for these rates was received in August of 1995. The 5 year rate is approved through April of 2000.

- A new contract for surplus power sales from the Snettisham Project was signed in February 1995. This marks the first time since the Crater Lake unit was added to the Project in 1991 that 100% of Snettisham energy has been committed by contract.

- APA continued to encouraged the use of surplus, clean, renewable hydroelectric energy with special dual fuel rates that accounted for 12,403 mWh of incentive fuel sales that returned an additional $150,622 in revenue to the U.S. Treasury. The fuel oil saved through the "dual fuel" program was 407,000 gallons which was replaced with 11,530 mWh of clean hydro generated electricity. The wood smoke replacement program accounted for the balance of surplus energy marketed at 873 mWh. This program reduced air pollution in problem areas due to wood smoke.

FUTURE

Eklutna Replacements

APA has received an extra $2,700,000 in FY 1995 funding to award a contract to replace the generator windings and stator cores at the Eklutna Project. A study conducted by the Bureau of Reclamation (USBR) in FY 1993 showed that the units had reached the end of their useful life and may fail at any time. Restrictions on the operation of the Eklutna units has been in effect for several years, due to the deteriorating condition of the units. APA accepted a bid for replacing and upgrading the Eklutna units at a cost of $3,419,621. On site installation is scheduled to start in August of 1996 and the work should be completed in June 1997.

APA Strategic Plan

APA's Strategic Plan will be reviewed and up dated as required to fit current needs. Passage of the Divestiture bill will have a profound impact on the Strategic Plan.

Divestiture

A Bill to authorize sale of Alaska Power Administration assets passed the Senate on May 16, 1995 (S.395). The version of this bill that passed the House of Representatives on July 25, 1995 did not include the divestiture of APA. A conference committee has been established to work out the differences between the two versions. The Department of Energy will be working with this committee to ensure that the final bill includes APA divesture. Work is also taking place in Congress to include the divestiture of APA to Budget Reconciliation Bill. The legislation would transfer ownership of the APA facilities to the State and local utilities, and result in the elimination of the Federal Power Marketing Administration in Alaska. Due to the high probability that S. 395 will be passed in the near future, APA has decreased the value of our assets by $81 million in FY 95 to reflect the impact of the sale.

Eklutna As-Built Transmission Line Survey

APA plans to conduct an as-built survey of the Eklutna Transmission Line during FY 1996. An as-built survey was never prepared and provided to BLM. Over the years there have been segments of the line that have been relocated for various reasons such as highway relocations, etc. APA needs to know the location of the transmission line in relation to all its a joining property owners.

Management's Discussion and Analysis

RESULTS OF OPERATIONS

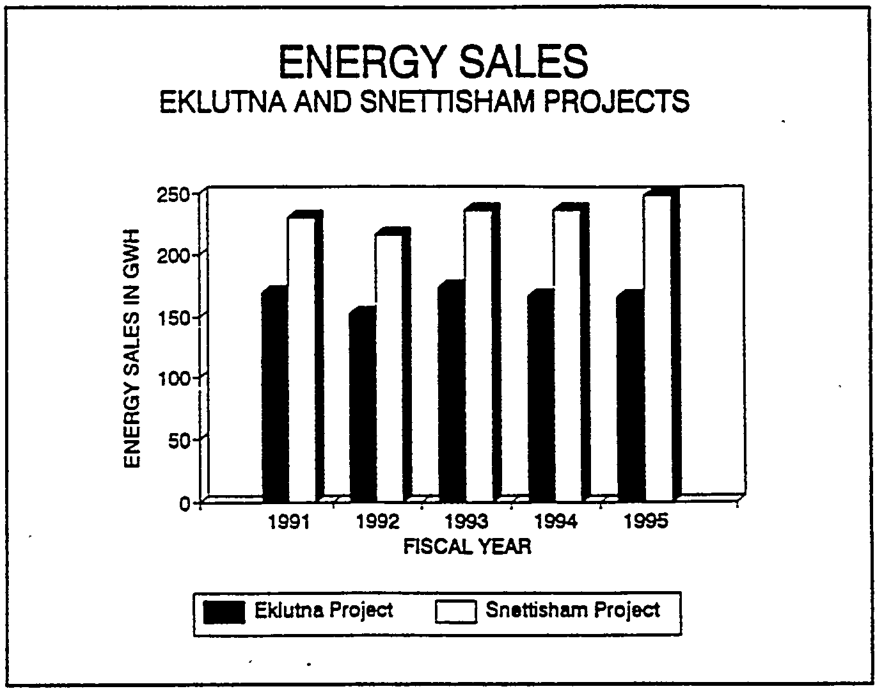
In FY 1995, APA had combined project sales and gross revenues totaling 415.2 million kWh and $10,759,529 respectively. This was APA's highest revenue year on record. Receipts exceeded cash outlays before repayment to the U.S. Treasury by $5.4 million.

The cost figures used in the Management's Discussion and Analysis are based on APA's Annual Rate Studies; therefore, the figures may not match costs in the financial statement. The Annual Rate Studies use O&M expenses (not including annual leave adjustment) and changes to capital assets from the audited financial records of APA as inputs.

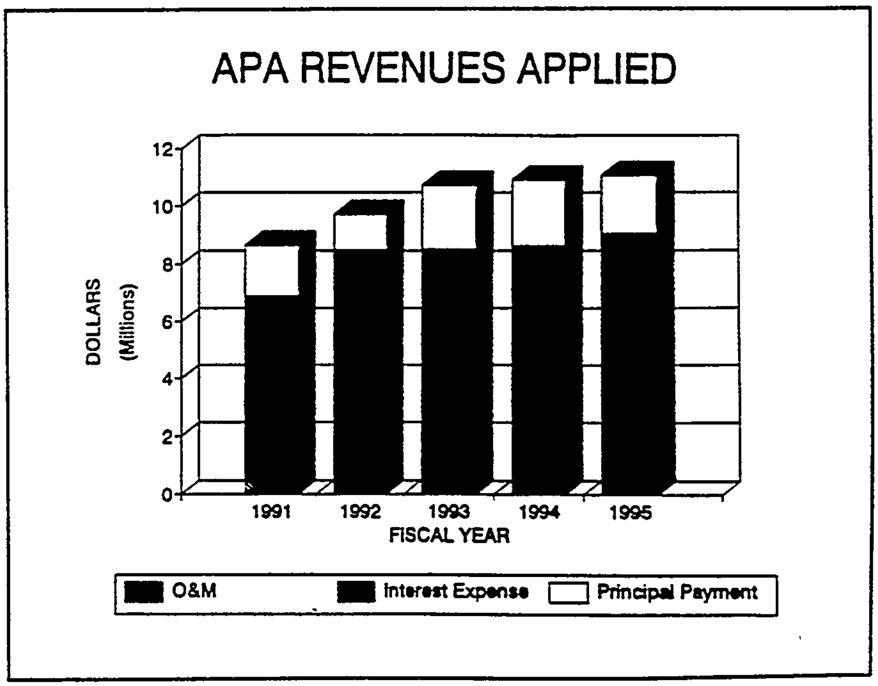
SALES AND REVENUES BY PROJECT

The Eklutna Project provides roughly 5% of the Anchorage and Matanuska-Susitna Valley area electrical load requirements. The new power sales contract establishes wholesale power costs to the Utilities by forecasting out year revenue requirements for repayment of the project. Yearly wholesale cost is calculated by multiplying the FERC approved rates for firm and non-firm energy by the projected energy sales shown in the APA Power Repayment Study (PRS). Any additional generation is available at no charge. The 1995 rate adjustment to 1.87 cents per kWh is still among the lowest cost energy available. As such, our customers generally take all the energy that can be produced from water flowing into the Eklutna reservoir. The reservoir began the year below its normal operating level (about 2 feet). We were anticipating sales of 134 million kWh, 30 million kWh below the plant's average generation. Actual sales of 166.7 million kWh were realized or approximately 1.6% above average generation. The reservoir ended the year 7.5 feet above normal. This combined with the need to draw the reservoir down prior to the beginning of the generator rewinds, indicates the likelihood of significantly higher than average generation in FY 1996. In October, APA has so far allocated 174 million kWh for the 1996 water year. Gross Revenues in FY 1995 amounted to $2,803,880 in FY 1995 which is a decrease over the prior year of 1.1%.

Management's Discussion and Analysis



The Snettisham Project, fed by the Long Lake and Crater Lake reservoirs, currently provides about 80% of the Juneau area electrical load requirement. Our customer provides the remaining 20% with their own hydro and backup diesel generators. With the addition of the Crater Lake unit in FY 1991, the Snettisham Project has the capacity to meet an increase in the area load of 30%. As such, change in the local area load has a greater impact on sales than a change in the reservoir inflows. Annual sales in FY 1995 were 249.3 million kWh, which helped bring gross to a record of $7,955,649. Gross revenues were up (7.9%) from the previous year, and were also up from that planned by 1.8%.



EXPENSES

Combined project operation and maintenance expenses from the Power Rate Study were $3,961,154; up 8.6% from 1994. Overall, operation and maintenance expenses averaged just 0.95 cents/kWh which is up 5.6% from last year.

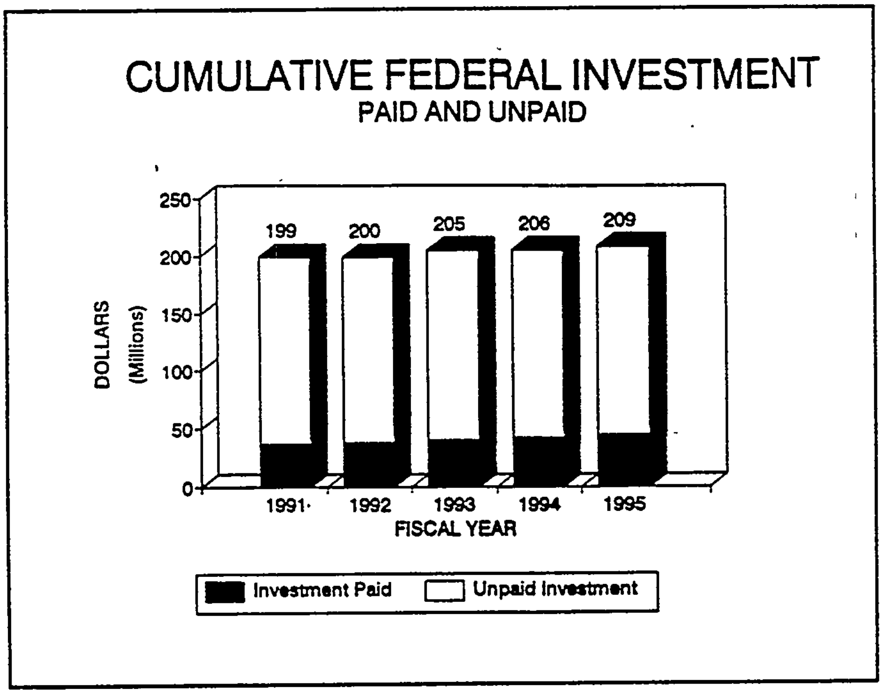
Interest expense on unpaid project principal of $4,887,385 was up slightly in FY 1995. This increase is due for the most part to the additional $518,163

Management's Discussion and Analysis

Corps of Engineers (COE) Crater Lake construction activity and interest during construction, transferred at the end of FY 1994. Interest on the unpaid principal at the Snettisham Project now accounts for over 92% of the total agency interest expense; the remaining 8% is for unpaid Eklutna Project investment, replacements, and deferred Crater Lake Interest.

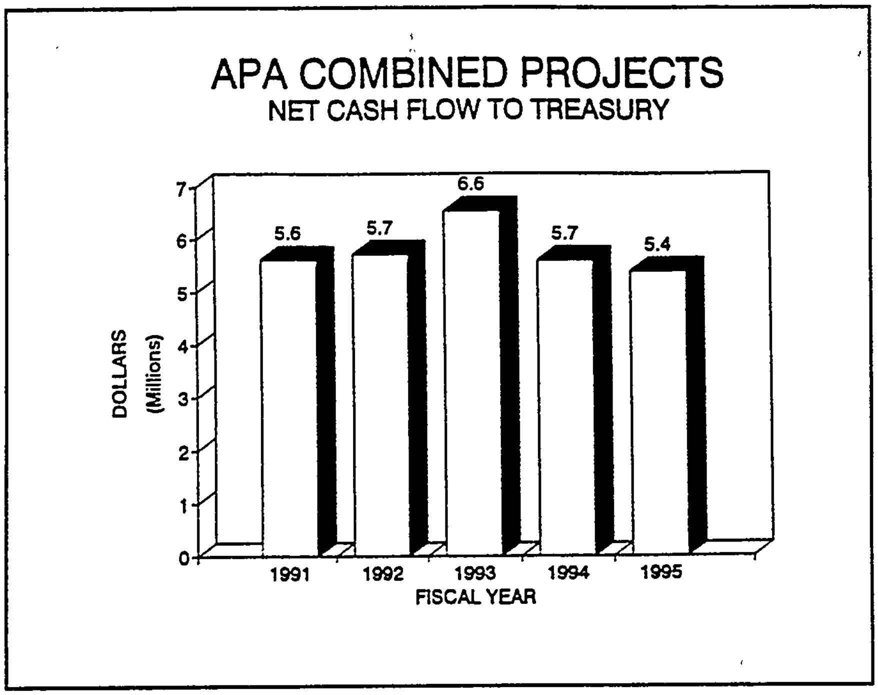
DEBT SERVICE

Annual revenues were sufficient to pay annual operation maintenance expenses, 98% of the interest expenses ($5,009,465 paid, $110,922 deferred), and provide principal payments of $1,346,145 to apply against the unpaid Federal investment. The principal payment was up 23.3% over that planned amount to be paid. The increase is due to lower than expected O&M costs and the Eklutna main power transformers costs. The principal paid was $254,317 more than planned resulting in a debt service coverage ratio for FY 1995 of 120.9%. The average debt service coverage ratio for the last five years was 117.6%.



REPAYMENT

The cumulative Federal investment through the end of FY 1995 is $208.6 million. This includes project principal and replacements. The investment is up $2.5 million from the previous year primarily for additional costs transferred from the COE in constructing the Crater Lake addition, and the transmission tower and main power transformer replacements. Over the life of the Projects, the ratepayers have repaid $44.3 million in principal and replacements, in addition to $78.1 million in interest and $57.5 million for operation and maintenance. Part of the 78.1 million in interest has been offset by $518,668 in interest credits earned over the course of the repayment periods. The unpaid balance remaining due to the U.S. Treasury is $165.8 million in principal, unpaid replacements, and deferred Crater Lake interest. On a Project basis, the 40-year-old Eklutna facility has repaid 82.4% of its investment, and the younger Snettisham facility has repaid 9.1% of its investment.

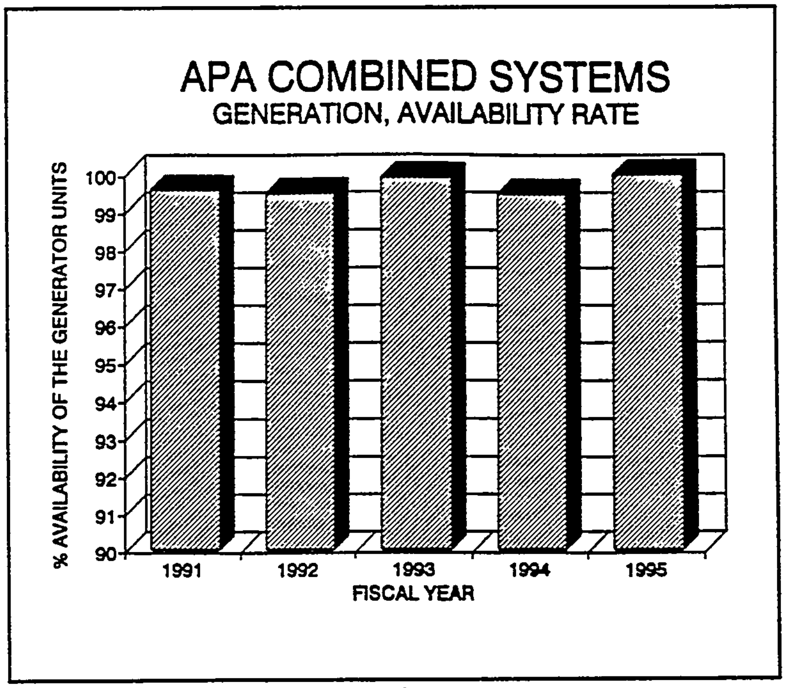


NET CASH FLOW

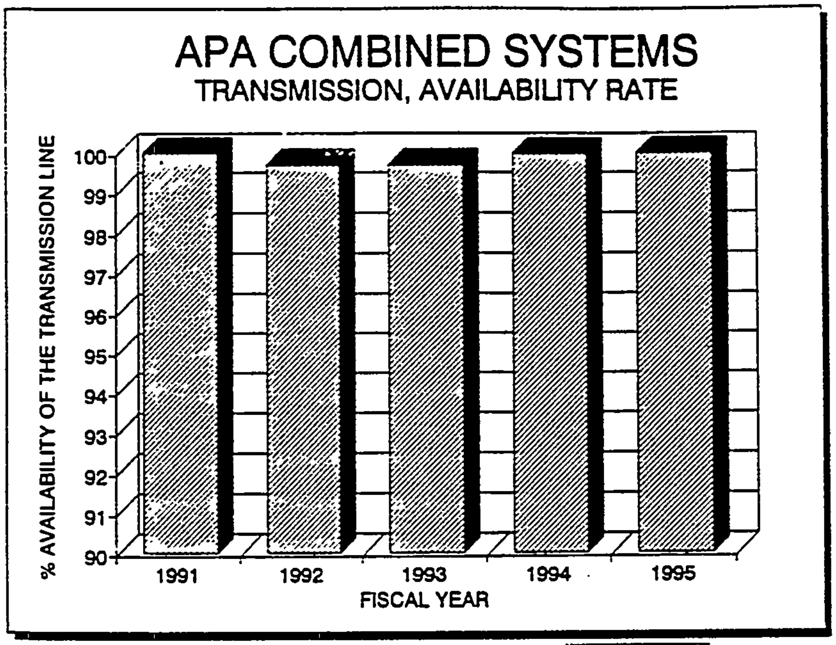
The net cash flow to the Treasury Department measures APA's receipts less actual cash outlays for operation and maintenance of the facilities. In FY 1995, APA revenues received exceeded cash outlays by $5.4 million.

SYSTEM RELIABILITY

The availability rate APA uses as a performance indicator that measures the total number of hours the equipment was in service plus the number of hours it was unavailable due to unscheduled activities. This indicator excludes downtime for regularly-scheduled activities. The indicator was derived by using the National Electric Reliability Council recognized formula for calculating an unweighted Forced Outage Ratio (FOR). The availability rate is the equivalent to subtracting the FOR from a perfect availability of one hundred percent (100%).



Management's Discussion and Analysis



In FY 1995, the generation and transmission systems maintained an average 99.96% and 99.99% respectively. This resulted in APA being able to maintain a high availability rate for its generation and transmission systems.

Over the past five years APA has been able to maintain an availability rate of over 99% for both the generation and transmission systems.

KPMG Peat Marwick LLP

601 West Fifth Avenue
Suite 700
Anchorage, AK 99501-2258

Independent Auditors' Report

The Administrator
Alaska Power Administration
U.S. Department of Energy:

We have audited the accompanying combined statement of assets, Federal investment and liabilities of Alaska Power Administration (APA) as of September 30, 1995, and the related combined statements of revenues, expenses and accumulated net revenues, and cash flows for the year then ended. These combined financial statements are the responsibility of APA's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The combined financial statements of APA as of September 30, 1994, were audited by other auditors whose report dated December 9, 1994, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards,* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of APA as of September 30, 1995, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 1995, on our consideration of APA's internal control structure and a report dated November 30, 1995, on its compliance with laws and regulations.

KPMG Peat Marwick LLP

601 West Fifth Avenue
Suite 700
Anchorage, AK 99501-2258

Independent Auditors' Report

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information as of and for the year ended September 30, 1995, is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in accumulated net revenues and cash flows of the individual projects. The combining information has been subjected to the auditing procedures applied in the audit of APA's combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

The information presented in management's Overview and management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by OMB Bulletin 94-01, *Form and Content of Financial Statements*. We have considered whether this information is materially inconsistent with the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we do not express an opinion on it. The performance information included in management's Overview and management's Discussion and Analysis is addressed in our auditors' report on internal control structure in accordance with OMB Bulletin No. 93-06.

This report is intended for the information of the management of APA and the United States Department of Energy. This restriction is not intended the limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

November 30, 1995

ALASKA POWER ADMINISTRATION

Combined Statements of Assets,
Federal Investment and Liabilities

September 30, 1995 and 1994

Assets	1995	1994
Utility plant (notes 2, 4 and 5):		
Plant in service	$ 0	187,072,170
Accumulated depreciation	0	(36,133,848)
Construction in process	0	820,054
Net utility plant	0	151,758,376
Assets held for sale, net (note 2)	87,000,000	0
Current assets:		
Unexpended appropriations (note 6)	4,301,185	1,834,335
Accounts receivable	1,057,584	365,313
Imprest fund	7,000	7,000
	5,365,769	2,206,648
Deferred interest on federal investment, net of accumulated amortization (note 2)	0	17,560,521
Total assets	$ 92,365,769	171,525,545

Federal Investment and Liabilities	1995	1994
Federal investment:		
Investment of U.S. Government (note 5):		
Congressional appropriations	93,025,389	86,519,638
Interest during construction	11,089,502	11,081,185
Transfers from other federal agencies	141,765,943	141,445,256
Interest on federal investment	81,622,649	76,746,734
Gross investment of U.S. Government	327,503,483	315,792,813
Funds returned to U.S. Treasury	(157,329,142)	(148,222,934)
Less funds related to the Civil Service Retirement System (note 7)	585,048	494,778
	(156,744,094)	(147,728,156)
Net investment of U.S. Government	170,759,389	168,064,657
Accumulated net revenues (deficit)	(78,797,506)	3,231,107
Total federal investment	91,961,883	171,295,764
Accounts payable and accrued liabilities	403,886	229,781
Total federal investment and liabilities	$ 92,365,769	171,525,545

The accompanying notes are an integral part of these combined financial statements.

ALASKA POWER ADMINISTRATION

Combined Statements of Revenues,
Expenses and Accumulated Net Revenues

Years ended September 30, 1995 and 1994

	1995	1994
Revenues (note 3):		
Sales of electric power:		
Municipalities	$ 1,446,134	1,456,336
Rural cooperatives	1,265,367	1,288,507
Privately owned utilities	7,852,500	7,261,350
Other	86,916	91,091
Wheeling	89,060	89,060
Other operating revenues	19,552	19,571
Total revenues	10,759,529	10,205,915
Expenses (note 5):		
Operations and maintenance	1,758,857	1,791,336
General and administrative	2,102,672	1,756,965
Depreciation and amortization	3,016,186	2,866,907
Loss on assets held for sale (note 2)	80,934,408	0
Other, net	100,530	110,833
Total expenses before interest expense	87,912,653	6,526,041
Net revenues (deficit) before interest expense	(77,153,124)	3,679,874
Interest expense on federal investment (note 5)	(4,875,916)	(4,859,105)
Net deficit	(82,029,040)	(1,179,231)
Accumulated net revenues at beginning of year	3,231,534	4,410,765
Accumulated net revenues (deficit) at end of year	$ (78,797,506)	3,231,534

The accompanying notes are an integral part of these combined financial statements.

ALASKA POWER ADMINISTRATION

Combined Statements of Cash Flows

Years ended September 30, 1995 and 1994

	1995	1994
Cash provided by operating activities:		
Net deficit	$ (82,029,040)	(1,179,231)
Items not requiring cash:		
Loss on assets held for sale	80,934,408	0
Interest expense on federal investment	4,875,916	4,859,105
Depreciation and amortization expense	3,016,186	2,866,907
(Increase) decrease in accounts receivable	(692,271)	475,798
Increase in accounts payable and accrued liabilities	174,105	33,146
Net cash provided by operating activities	6,279,304	7,055,725
Cash used in investing activities - additions to plant in service	(1,622,954)	(1,538,638)
Cash used in financing activities:		
Funds returned to U.S. Treasury	(9,106,208)	(9,492,170)
Congressional appropriations	6,505,751	3,996,250
Transfers from other agencies	320,687	503,073
Increase in Civil Service Retirement System liability	90,270	99,251
Net cash used in financing activities	(2,189,500)	(4,893,596)
Net increase in cash	2,466,850	623,491
Cash at beginning of year	1,834,335	1,210,844
Cash at end of year	$ 4,301,185	1,834,335

The accompanying notes are an integral part of these combined financial statements.

(1) Summary of Significant Accounting Policies

Reporting Entity

Alaska Power Administration (APA) was established in 1967 by the Secretary of the Department of the Interior (DOI) to assume the power functions of the Bureau of Reclamation in Alaska. In 1977, the Department of Energy (DOE) Organization Act transferred APA from the DOI to the DOE. Electric power and energy generated by the APA projects, which represent 100 percent of the operations of APA, are required to be utilized in such a manner as to encourage their most widespread use thereof at the lowest possible rates to customers. APA is exempt from taxation.

The Eklutna Project, created under the Eklutna Project Act of 1950, as amended, is located near Anchorage, Alaska. Repayment of the original construction costs for the transmission and generating facilities extends for a period of fifty years from the date placed in service (the repayment period). It was placed in service in 1955. Interest on the unpaid portion of these costs is charged at 2.5% annually.

The Snettisham Project, created under the 1962 Flood Control Act, as amended, is located near Juneau, Alaska. Snettisham is a staged project whereby the first stage on Long Lake was placed in service in 1975 and the second phase on Crater Lake was placed in service in 1991. The repayment periods for Long Lake and Crater Lake are sixty and fifty years, respectively, and interest is charged on the unpaid portion at 3% annually. After the initial ten-year period of operation, the Long Lake phase of Snettisham requires annual payments throughout the remaining repayment period in an amount that approximates a fifty year mortgage.

Basis of Presentation

These combined financial statements have been prepared to report the financial position and results of operations of APA as required by the Chief Financial Officers Act of 1990 (CFO). They have been prepared from the books and records of APA as required by the CFO and in accordance with generally accepted accounting principles.

These statements are therefore different from the financial reports, also prepared by APA pursuant to the Office of Management and Budget (OMB) directives, that are used to monitor and control APA's use of budgetary resources.

Accounts are maintained in accordance with accounting principles and standards established by the uniform system of accounts prescribed for electric utilities by the Federal Energy Regulatory Commission (FERC), the accounting practices and standards established by the DOE and the requirements of specific legislation and executive directives issued by various government agencies. APA's financial statements are generally presented in accordance with the provisions of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation. The provisions of Statement 71 require, among other things, that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

Utility Plant and Depreciation

Plant in service in 1994 is stated at original cost for property transferred from other government agencies. Cost includes direct labor and materials, payments to contractors, indirect charges for engineering, supervision and similar overhead items and allowance for funds used during construction. The costs of additions and betterments are capitalized. Repairs and maintenance are charged to operations and maintenance expense. Generally, the cost of utility plant retired, together with removal costs less salvage, is charged to accumulated depreciation when it is removed from service. Gains and losses are recognized only on sales of significant identifiable assets.

Plant in service consists principally of generating and transmission facilities as follows. Plant in service as of September 30, 1995 is considered held for sale (note 2).

	1995	1994
Generating facilities	$ 155,103,228	154,814,014
Transmission facilities	34,420,693	32,258,156
Construction in progress	0	820,054
Accumulated depreciation	(38,721,729)	(36,133,848)
	$ 150,802,192	151,758,376

APA's method of computing depreciation of utility plant is the straight-line method based on the estimated service lives of the various classes of property. In accordance with DOE regulations, assets are not considered to be placed into service until the end of the fiscal period in which they become operational. Service lives currently average approximately eighty-seven years for the Eklutna Project and seventy-five years for the Snettisham Project. Depreciation expense was $2,587,881 and $2,438,602 in 1995 and 1994, respectively.

Unexpended Appropriations

Unexpended appropriations consist of cash balances with the U.S. Treasury which represent the unexpended balance of the funds appropriated by the U.S. Congress (Congress) for construction, operation and maintenance purposes. For purposes of the statements of cash flows, unexpended appropriations are considered to be cash.

Revenues

Operating revenues are recorded on the basis of service rendered and the applicable authorized rates. Rate schedules become effective upon confirmation and approval by FERC. Interim rates may be approved by the DOE Deputy Secretary. The rates are intended to provide sufficient revenues during the repayment period from which payments can be made to the U.S. Treasury in an amount equal to the gross investment for the U.S. Government. Differences exist between the length of the repayment period and the estimated service lives over which the assets are being depreciated; thus, annual depreciation charges are not matched with the recovery of the related capital costs and will, in the case of these projects, continue beyond the period within which such costs should be recovered through revenues.

The projects (Eklutna and Snettisham) have net billing arrangements with power purchasers which are offset against operations and maintenance expense and revenue. The net revenues received are returned to the U.S. Treasury. In fiscal years 1994 and 1995, work to relocate a structure on the Snettisham Transmission Line (Structure 12/2) required an extended use of net billing which is described below by relationship, work description and net billing details:

Relationship

Alaska Electric Light & Power (AEL&P) is both a customer of and a contractor to APA. In the customer role, AEL&P buys wholesale electric power from APA and in turn, retails it to commercial and residential customers. Eighty percent of Juneau's power needs are provided by APA.

Since December 1973, AEL&P has also been a contractor to APA to provide operators twenty-four hours a day, three hundred and sixty-five days a year, for APA's Snettisham Project. In November 1992, routine annual transmission line inspection and maintenance work were added to the contract. Both parts of the contract are firm fixed-price. The maintenance portion of the contract also calls for nonscheduled transmission line work as requested by APA at contract established fixed rates. The Structure 12/2 relocation was performed under the nonscheduled transmission line work part of the contract.

Work Description

The Structure 12/2 contract work consisted of relocating Structure 12/2 out of a new rock slide area and increasing the height of Structure 12/3 to accommodate the new conductor span. This task included some surveying, timber clearing, excavation of three tower foundations, excavation of eleven tower guy anchors, drilling five rock bolt type tower guy anchors, forming and pouring the three foundations and eleven anchors, back filling and compacting these, conducting required tests (concrete, compaction), de-energizing the line, erecting the new Structure 12/2, modifying tower 12/3, removing existing Structure 12/2, restringing and tensioning the line, and re-energizing the line. It is noted that all equipment, materials and workers had to be flown to this remote site by various type helicopters.

Net Billing Details

APA paid for this contract work through net billing authority. AEL&P billed APA for the cost of services performed under the contract on a monthly basis. APA bills AEL&P monthly for the costs of electric power delivered to AEL&P less any costs accumulated under the contract. An estimated amount of the contract costs is included in the annual congressional appropriations testimony and budget submittals. When passed by Congress and signed into law, APA awards the contract. In the event the costs are more than the amount reported to Congress, such as Structure 12/2 relocation, OMB, DOE's Comptroller and Chief Financial Officer, General Counsel and Congress are notified of the increase (see administrator letters of August 17, 1994, January 26, 1995 and October 24, 1995). In the Structure 12/2 case, the total fiscal year 1994 net billing amount was $650,767 more than the $518,000 approved by Congress for APA's fiscal year 1994 budget (Structure 12/2 costs $663,267). In fiscal year 1995, the amount was $430,286 more than the $530,000 approved by Congress for APA's fiscal year 1995 budget (Structure 12/2 costs $522,080). The total net billed cost for Structure 12/2 was $1,185,347.

The revenue recognition policy followed by the projects is in conformity with the accounting principles and standards established by DOE and the requirements of specific legislation and executive directives issued by government agencies.

Interest on Federal Investment

Interest on federal investment is an imputed cost mandated by authorizing legislation for each project. APA computes interest in accordance with RA 6120.2 which provides that interest be computed on the unamortized investment of the U.S. Government after revenues have been applied to recovery of costs during the year, any prior year unpaid costs and then to Federal investment bearing the highest interest rate first (note 4).

Allowance for Funds Used During Construction

The practice of capitalizing the allowance for funds used during construction (AFUDC) is followed for both generating and transmission facilities. Rates are set by law, administrative order or administrative policy. Rates used for replacements are based upon the rates established for the fiscal year during which the work commenced. The current replacement rates are 7.250% and 7.125% in 1995 and 1994, respectively.

Deferred Interest on Federal Investment

The initial ten-year repayment period for the Snettisham Project began in 1976 during which time all unpaid interest on the federal investment was deferred. In 1986, these costs were included in the total unpaid federal investment for rate-making purposes and will be recovered through rates over the fifty year repayment period in accordance with the Water Resources Development Act of 1976. APA was amortizing the deferred interest ratably over a forty-five year period using the straight-line method. In 1995, the balance was included in the loss on the asset held for sale.

Reclassifications

Certain 1994 balances have been reclassified to conform with the 1995 presentation.

(2) Assets Held for Sale

Purchase agreements were signed in 1989 with the State of Alaska (State) to purchase the Snettisham Project and with the three current power customers, Municipal Light and Power, Chugach Electric Association, Inc. and Matanuska Electric Association, Inc., to purchase the Eklutna Project. Senate Bill S.395 was introduced in the 104th Congress. This bill authorizes the divestiture of APA assets in accordance with the purchase agreements. The bill passed the House of Representatives on November 8, 1995 and the Senate on November 14, 1995 and was signed by the President of the United States on November 28, 1995. The purchase agreements state the terms and conditions under which the transfer of assets is required to be carried out. Actual transfer of the projects to the new owners is not expected to occur until October 1, 1996 or later.

The sales price will be calculated on the transfer date. The calculation of the sales price is affected by the interest rate the State will have to pay on revenue bonds that it will issue to purchase Snettisham. Based on current interest rates and an estimated transfer date of October 1, 1996, the sales prices for the Eklutna and Snettisham projects are estimated to be approximately $7,178,000 and $79,822,000, respectively, totaling $87,000,000. Accordingly, the projects are considered to be held for sale as of September 30, 1995 and have been written down to estimated net realizable value as follows:

Carrying value of utility plant and equipment	$ 150,802,192
Deferred interest on federal investment	17,132,216
Loss on assets held for sale	(80,934,408)
Estimated net realizable value	$ 87,000,000

Changes in the net realizable value will be recognized in future revenue or expense. With the transfer of the projects to the new owners, APA will have achieved its mission and will discontinue its operations.

(3) Confirmation and Approval of New Rates

The rate schedules for the Eklutna Project were confirmed by FERC on February 2, 1995 for the period October 1, 1994 through September 30, 1999.

The rate schedules for the Snettisham Project were confirmed by FERC on August 15, 1995 for the period May 1, 1995 through April 30, 2000.

(4) Transfer of Crater Lake

The Crater Lake phase for the Snettisham Project was designed by the U.S. Army Corps of Engineers (Corps). The initial production testing of Crater Lake began in the Fall of 1989; however, full production and project certification were not achieved until June 1991. Upon certification in fiscal year 1991, the Corps transferred the assets, at cost, to APA in the amount of $65,173,713. As other items were completed, additional costs were transferred to APA for a total of $71,745,647 at the end of fiscal year 1995. Upon ultimate completion of the project administration, the Corps will formalize the transfer of all costs to APA through a transfer of title between government agencies as required under the enacting legislation and various government regulations. The transfer document is in Washington D.C. awaiting the Secretary of Army's signature.

In accordance with DOE regulations, assets are not considered to be placed into service until the end of the fiscal period in which they become operational. As such, depreciation of the Crater Lake phase began in fiscal year 1992. The repayment period for the Crater Lake phase will be fifty years.

(5) Investment of U.S. Government

Construction and operation of the project transmission system, generating plants and operations are financed, in whole or in part, through congressional appropriations. The government's investment in each project, including original construction costs and annual operating expenses, is required to be repaid to the U.S. Treasury within the repayment period. At Eklutna, annual revenues are first applied to the current year operating expenses, less depreciation and interest expense. All annual amounts for such expenses have been paid for fiscal years 1995 and 1994. At Snettisham, annual revenues are first applied to the required Long Lake principal payment to comply with the Water Resources Development Act of 1976. Remaining revenues are applied to current year operating expenses and interest expense. All annual amounts for the required payment and operating expenses have been paid for fiscal years 1995 and 1994; however, APA could not make complete Crater Lake interest payments in fiscal years 1995 and 1994. To the extent possible, while still complying with the repayment period established for each increment of investment and unless otherwise required by legislation, repayment of the investment is to be accomplished by repayment of the highest interest bearing investment first.

(6) Congressional Appropriations

Congressional appropriations received by APA are allocated to the individual projects at management's discretion. Certain allocations are made for contingencies which are prorated for the benefit of the two projects. Expended funds from these divisions are transferred to the appropriate projects at year-end. To the extent these costs were incurred for the benefit of both projects, they are allocated equally. It is the intent of APA management to distribute congressional appropriations in amounts approximating estimated current year expenditures and to adjust the distribution as necessary within the limits of the transfer authority residing with APA officials.

(7) Retirement Plan

The majority of APA employees participate in the Civil Service Retirement System (CSRS), a contributory defined benefit pension plan. Except as discussed below, APA does not report CSRS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the U.S. Office of Personnel Management. In fiscal year 1991, APA began recognizing retirement benefit expense of approximately 14% of eligible employee compensation for the estimated costs of employee participation in CSRS. These costs are being recovered through rates and returned to the U.S. Treasury. As a result, a portion of funds returned to the U.S. Treasury represent funding of this CSRS liability. APA has accounted for the prior unfunded costs of CSRS in fiscal year 1994. Total expense for this cost was $90,270 in 1995 and $99,251 in 1994.

On January 1, 1987, the Federal Employees Retirement System (FERS), a contributory defined benefit pension plan, went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983 are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984 could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan which automatically contributes 1% of pay and matches any employee contribution up to an additional 4% of pay. For most employees hired since December 31, 1983, APA also contributes the employer's matching share for Social Security.

ALASKA POWER ADMINISTRATION

Combining Information - Assets, Federal Investment and Liabilities

September 30, 1995 and 1994

	Combined Totals		1995		1994	
Assets	1995	1994	Eklutna	Snettisham	Eklutna	Snettisham
Utility plant:						
Plant in service	$ 0	187,072,170	0	0	34,509,817	152,562,353
Accumulated depreciation	0	(36,133,848)	0	0	(13,465,777)	(22,668,071)
Construction in process	0	820,054	0	0	0	820,054
Net utility plant	0	151,758,376	0	0	21,044,040	130,714,336
Assets held for sale	87,000,000	0	7,178,000	79,822,000	0	0
Current assets:						
Unexpended appropriations	4,301,185	1,834,335	3,733,501	567,684	1,266,651	567,684
Accounts receivable	1,057,584	365,313	481,498	576,086	277,717	87,596
Imprest fund	7,000	7,000	3,500	3,500	3,500	3,500
	5,365,769	2,206,648	4,218,499	1,147,270	1,547,868	658,780
Deferred interest on federal investment, net of accumulated amortization	0	17,560,521	0	0	0	17,560,521
Total assets	$ 92,365,769	171,525,545	11,396,499	80,969,270	22,591,908	148,933,637
Federal Investment and Liabilities						
Federal investment:						
Investment of U.S. Government:						
Accumulated congressional appropriations	93,025,389	86,519,638	66,452,174	26,573,215	61,868,080	24,651,558
Interest during construction	11,089,502	11,081,185	1,909,047	9,180,455	1,909,047	9,172,138
Transfers from other federal agencies	141,765,943	141,445,256	(1,497,650)	143,263,593	(1,497,650)	142,942,906
Interest on federal investment	81,622,649	76,746,734	20,531,428	61,091,221	20,378,109	56,368,625
Gross investment of U.S. Government	327,503,483	315,792,813	87,394,999	240,108,484	82,657,586	233,135,227
Funds returned to U.S. Treasury	(157,329,142)	(148,222,934)	(77,600,819)	(79,728,323)	(75,127,352)	(73,095,582)
Less funds related to the Civil Service Retirement System	585,048	494,778	310,573	274,475	258,431	236,347
	(156,744,094)	(147,728,156)	(77,290,246)	(79,453,848)	(74,868,921)	(72,859,235)
Net investment of U.S. Government	170,759,389	168,064,657	10,104,753	160,654,636	7,788,665	160,275,992
Accumulated net revenues (deficit)	(78,797,506)	3,231,107	1,092,400	(79,889,906)	14,690,646	(11,459,539)
Total federal investment	91,961,883	171,295,764	11,197,153	80,764,730	22,479,311	148,816,453
Accounts payable and accrued liabilities	403,886	229,781	199,346	204,540	112,597	117,184
Total federal investment and liabilities	$ 92,365,769	171,525,545	11,396,499	80,969,270	22,591,908	148,933,637

ALASKA POWER ADMINISTRATION

Combining Information - Revenues, Expenses and Accumulated Net Revenues

Years ended September 30, 1995 and 1994

	Combined Totals		1995		1994	
	1995	1994	Eklutna	Snettisham	Eklutna	Snettisham
Revenues:						
Sales of electric power:						
Municipalities	$ 1,446,134	1,456,336	1,446,134	0	1,456,336	0
Rural cooperatives	1,265,367	1,288,507	1,265,367	0	1,288,507	0
Privately owned utilities	7,852,500	7,261,350	0	7,852,500	0	7,261,350
Other	86,916	91,091	2,119	84,797	1,654	89,437
Wheeling	89,060	89,060	89,060	0	89,060	0
Other operating revenues	19,552	19,571	1,200	18,352	0	19,571
Total revenues	10,759,529	10,205,915	2,803,880	7,955,649	2,835,557	7,370,358
Expenses:						
Operations and maintenance	1,758,857	1,791,336	574,527	1,184,330	561,682	1,229,654
General and administrative	2,102,672	1,756,965	1,073,664	1,029,008	822,197	934,768
Depreciation and amortization	3,016,186	2,866,907	400,194	2,615,992	395,178	2,471,729
Loss on assets held for sale	80,934,408	0	14,144,258	66,790,150	0	0
Other, net	100,530	110,833	56,163	44,367	69,197	41,636
Total expenses before interest expense	87,912,653	6,526,041	16,248,806	71,663,847	1,848,254	4,677,787
Net revenues (deficit) before interest expense	(77,153,124)	3,679,874	(13,444,926)	(63,708,198)	987,303	2,692,571
Interest expense on federal investment	(4,875,916)	(4,859,105)	(153,319)	(4,722,597)	(170,174)	(4,688,931)
Net revenues (deficit)	(82,029,040)	(1,179,231)	(13,598,245)	(68,430,795)	817,129	(1,996,360)
Accumulated net revenues (deficit) at beginning of year	3,231,534	4,410,765	14,690,645	(11,459,111)	13,873,516	(9,462,751)
Accumulated net revenues (deficit) at end of year	$ (78,797,506)	3,231,534	1,092,400	(79,889,906)	14,690,645	(11,459,111)

ALASKA POWER ADMINISTRATION

Combining Information - Cash Flows

Years ended September 30, 1995 and 1994

	Combined Totals		1995		1994	
	1995	1994	Eklutna	Snettisham	Eklutna	Snettisham
Cash provided by operating activities:						
Net revenues (deficit)	$ (82,029,040)	(1,179,231)	(13,598,245)	(68,430,795)	817,129	(1,996,360)
Items not requiring cash:						
Loss on assets held for sale	80,934,408	0	14,144,258	66,790,150	0	0
Interest expense on federal investment	4,875,916	4,859,105	153,319	4,722,597	170,174	4,688,931
Depreciation and amortization expense	3,016,186	2,866,907	400,194	2,615,992	395,178	2,471,729
(Increase) decrease in accounts receivable	(692,271)	475,798	(203,781)	(488,490)	40,443	435,355
Increase in accounts payable and accrued liabilities	174,105	33,146	86,747	87,358	5,888	27,258
Other	425	(127)	0	425	1,619	(1,746)
Net cash provided by operating activities	6,279,729	7,055,598	982,492	5,297,237	1,430,431	5,625,167
Cash used in investing activities:						
Additions to plant in service	(1,631,696)	(1,568,199)	(678,411)	(953,285)	(115,710)	(1,452,489)
Interest during construction	8,317	29,688	0	8,317	0	29,688
Net cash used in investing activities	(1,623,379)	(1,538,511)	(678,411)	(944,968)	(115,710)	(1,422,801)
Cash provided (used) by financing activities:						
Funds returned to U.S. Treasury	(9,106,208)	(9,492,170)	(2,473,467)	(6,632,741)	(2,798,372)	(6,693,798)
Congressional appropriations	6,505,751	3,996,250	4,584,094	1,921,657	2,005,320	1,990,930
Transfers from other agencies	320,687	503,073	0	320,687	0	503,073
Increase in Civil Service Retirement System liability	90,270	99,251	52,142	38,128	54,801	44,450
Net cash provided (used) in financing activities	(2,189,500)	(4,893,596)	2,162,769	(4,352,269)	(738,251)	(4,155,345)
Net increase in cash	2,466,850	623,491	2,466,850	0	576,470	47,021
Cash at beginning of year	1,834,335	1,210,844	1,266,651	567,684	690,181	520,663
Cash at end of year	$ 4,301,185	1,834,335	3,733,501	567,684	1,266,651	567,684

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Independent Auditors' Report on the Internal Control Structure

The Administrator
Alaska Power Administration
U.S. Department of Energy:

We have audited the combined power system financial statements of Alaska Power Administration (APA) as of and for the year ended September 30, 1995, and have issued our report thereon dated November 30, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined power system financial statements are free of material misstatement.

Management of APA, a unit of the U.S. Department of Energy (DOE), is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the combined power system financial statements and other laws and regulations that the OMB, APA management, or the DOE have identified as being significant and for which compliance can be objectively measured and evaluated; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and properly recorded and accounted for to permit the preparation of reliable combined power system financial reports in accordance with the accounting principles and to maintain accountability over the assets; and that data supporting reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the combined power system financial statements of APA for the year ended September 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the combined power system financial statements, and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Independent Auditors' Report on the Internal Control Structure

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of relevant internal control structure policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the combined power system financial statements being audited, or material to a performance measure or aggregation of related performance measures, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

We also noted other matters involving APA's internal control structure and its operation that we have reported to the management of APA in a separate letter dated November 30, 1995.

This report is intended for the information and use of APA. The restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

November 30, 1995

KPMG Peat Marwick LLP

601 West Fifth Avenue
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Anchorage, AK 99501-2258

Independent Auditors' Report on Compliance with Laws and Regulations

The Administrator
Alaska Power Administration
U.S. Department of Energy:

We have audited the combined power system financial statements of the Alaska Power Administration (APA) as of and for the year ended September 30, 1995, and have issued our report thereon dated November 30, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards,* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 93-06, *Audit Requirements for Federal Financial Statements.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the combined power system financial statements is the responsibility of APA, a unit of the U.S. Department of Energy (DOE). As part of obtaining reasonable assurance about whether the combined power system financial statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the combined power system financial statements and certain other laws and regulations designated by OMB and DOE, including:

- Eklutna Project Act of 1950
- Flood Control Act of 1962
- Water Resources Development Act of 1976
- DOE Order RA 6120.2 Power Marketing Administration Financial Reporting
- 18 CFR 300 Confirmation and Approval of Rates of Federal Power Marketing Administrations
- DOE Delegation Order No. 0204-108 Approval of PMA Power and Transmission Rates
- 10 CFR 903 Power and Transmission Rates
- Prompt Payment Act
- Chief Financial Officers Act of 1990
- Buy America Act
- Anti-deficiency Act
- DOE Delegation Order 02304-108
- Budget and Accounting Procedures Act
- Federal Managers' Financial Integrity Act of 1982 (FMFIA)

However, the objective of our audit of the combined financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Independent Auditors' Report on Compliance with Laws and Regulations

As a part of our audit, we obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by FMFIA and compared APA's most recent FMFIA reports with the evaluation we conducted of the combined power system's internal control system.

The results of our tests disclosed no instances of noncompliance required to be reported herein under *Government Auditing Standards or OMB Bulletin 93-06.*

APA has received a waiver from OMB with respect to the financial statement provisions of OMB Bulletin 94-01, *Form and Content of Financial Statements;* however, APA is required to comply with the overview and performance measure requirements of the OMB Bulletin.

* * * * *

This report is intended for the information of the management of APA. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

KPMG Peat Marwick LLP

November 30, 1995

KPMG Peat Marwick LLP

601 West Fifth Avenue
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Anchorage, AK 99501-2258

Management Letter

The Administrator
Alaska Power Administration
U.S. Department of Energy:

We have audited the combined power system financial statements of Alaska Power Administration (APA) as of and for the year ended September 30, 1995, and have issued our report thereon dated November 30, 1995. In planning and performing our audit of the combined power system financial statements of APA, we considered the internal control structure in order to determine our procedures for the purpose of expressing our opinion on the combined power system financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies:

1. MONITORING OF EXPENSES

Audit Comment

Effective control and oversight of an entity's expenses requires information be available to understand why expense accounts change from year to year. APA is unable without considerable research to provide a breakdown of these broad categories into sufficient detail to determine the reasons for why expenses changed from the prior year. APA only has three expense accounts for each project. The lack of sufficient detailed information prevents APA from effectively monitoring and controlling expenses.

Recommendations

APA should maintain more specific detail of expenses. This detail should be analyzed by comparison to the prior year and the reasons why the changes are acceptable should be documented.

Management's Response

APA disagrees with the recommendation. The IAS computer based system located in Tulsa does not generate a breakdown of the various expenses and it is not possible within the remaining time and funds available to APA to implement the recommendation before it closes its doors. It also would not be cost effective to overhaul the IAS software because it is planned to be discarded as soon as possible because of a new computer and software that SWPA has acquired for replacement of IAS. A substitute that has been used by APA for a number of years to track and project expenditures in APA's Status of Funds is prepared by APA's Budget Officer on a monthly basis. This report shows the expenses by object codes for such items as: salaries, travel, transportation, rent/utilities, printing, other services, materials and supplies, and equipment. Wages are broken down into salaries, benefits, etc. A subtable drives the salaries which lists out in detail all costs and changes to them since each employee has worked for APA. The Status of Funds is a management tool that is used to see what the current costs are, funds remaining for the balance of the year in the various object codes, monthly changes and annual changes, and is used as a basis to set up the next year's budget.

2. MISCELLANEOUS FUNDS WITH THE DEPARTMENT OF TREASURY

Validity of Treasury Balances

Audit Comment

Generally accepted accounting principles require that an entity record its assets in its accounting records. APA has both positive and negative fund balances in miscellaneous accounts with the Department of Treasury that are not shown on APA's account records. The net balance of these accounts was $38,264 on September 30, 1995. APA personnel have not investigated the validity of the amounts or determined why they are not reflected in APA's accounting records. As a result, APA may have understated the assets in its financial statements by $38,264.

Recommendation

APA should investigate the source of unrecorded positive and negative account balances on the records at the Department of Treasury and make the necessary accounting entries to properly record the assets.

Management's Response

APA management concurs with the recommendation. These entries will be made when APA completes an analysis of the origins of the balances if the availability of historic records allows.

3. APPROVAL OF JOURNAL VOUCHERS

Audit Comment

Effective internal control environment requires separation of duties between the person inputting information into the general ledger and the person approving the information. Our audit showed erroneous posting—some of significant dollar amount—not supported by the referenced documentation. APA's journal entry clerks are also responsible for verifying the accuracy of input by indicating their approval for recurring and nonrecurring entries into the accounting records. APA believes that its small accounting staff does not permit having someone other than the input clerk review the propriety of all accounting entries. The lack of independent verification has resulted in inaccurate postings.

Recommendation

APA should establish procedures that provide for independent verification of data posted to the accounting records by input clerks for nonrecurring journal entries and consider other alternative procedures for recurring journal entries.

Management's Response

APA management concurs with the recommendation. In the future, APA will have the supervisor review and approve all of the nonrecurring journal voucher entries. Spot checks of recurring transactions will be made as time and personnel availability permits.

4. PROMPT PAYMENT ACT

Audit Comment

The Prompt Payment Act (Act) requires that government entities pay their bills within thirty days of receipt, or pay interest on the amount due for each day the payment is late. The Act also requires that payments not be made more than eight days early to prevent incurring additional interest on money borrowed by the government. In fiscal year 1995, APA made twenty-five late payments totaling $129,041 but did not pay interest due the vendors. Also, APA paid thirty-six bills totaling $103,103 more than eight days before the due date.

APA explained that the established administrative control procedures did not prevent the late payments because employees were not familiar with the Act's requirements. As a result of late payments, APA estimates it owed the vendors about $170 of interest and caused the government to incur some interest costs for the early payments.

Recommendation

APA should reemphasize the requirement to follow the administrative procedures in place to prevent early or late payment of vendor bills.

Management's Response

APA concurs with the recommendation. Will have Act requirements reviewed by the finance team members and the certifying officers, as well as require the certifying officers to check each payment to ensure that it is being paid within the window allowed by the Prompt Payment Act. Early payments will be held until due and late payments will be brought to the attention of the supervisor for review and appropriate action.

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Should you have any questions concerning the matters presented herein, we would be pleased to discuss them with you at your convenience.

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KPMG Peat Marwick LLP

November 30, 1995