100-1-97-S (1)

United States Government Department of Energy

memorandum

DATE: February 27, 1997

REPLY TO ATTN OF: IG-30

JBJECT: Alaska Power Administration's Fiscal Year 1996 Financial Statement Audit (WR-FC-97-02)

TO: Administrator

The attached report presents the results of the independent certified public accountants' audit of the Department of Energy's Alaska Power Administration's (Alaska) financial statements as of September 30, 1996. The auditors have expressed an unqualified opinion on the 1996 combined statements of assets, Federal investment and liabilities, and the related combined statements of revenues, expenses and accumulated net revenues, and cash flows.

The 1996 financial statement audit was made under provisions of the Inspector General Act (5 U.S.C. App.) as amended, the Government Management Reform Act (31 U.S.C. 3515), and Office of Management and Budget implementing guidance. The auditors' 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 LLP (KPMG) to conduct the audit for us, subject to our review.

The auditors' report on Alaska's internal control structure disclosed no reportable conditions that could have a material effect on the financial statements. The auditors 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 auditors' 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. These items are fully discussed in a separate letter to management accompanying the report.

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

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

Attachment

cc: Audit Liaison, Alaska Power Administration
Director Audit Liaison Division (CR-33)
Manager, Western Regional Audit Office

IG Report No. WR-FC-97-02

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KPMG

ALASKA POWER ADMINISTRATION

Combined Financial Statements,
Schedules and Supplemental Reports

September 30, 1996 and 1995

(With Independent Auditors' Report Thereon)

Table of Contents

Letter to the Secretary

The Honorable Hazel R. O'Leary
Secretary of Energy
Washington, DC 20585

Dear Madam Secretary:

It is my pleasure to submit the Alaska Power Administration's (APA) 1996 Annual Report.

In fiscal year 1996, APA generated a record 446 million kWh of electrical energy. The Snettisham Project produced 264 million kWh, and the Eklutna Project produced 182 million kWh. This resulted in revenues of $12.3 million, APA's highest revenue year on record, of which the Snettisham Project provided $9.2 million and the Eklutna Project brought in $3.1 million. The combined revenues exceeded cash outlays by $8.6 million.

APA's operations, maintenance, and power marketing efforts continue to ensure that our facilities provide reliable electrical energy to our customers. At the end of last year, APA successfully awarded a contract to replace the generator windings at the Eklutna Project. This $3.4 million contract is the largest contract ever awarded by APA. After considerable efforts in the contractor's (ABB) factory, the on-site installation of the new generator windings began in October 1996, with the work expected to be complete by late September 1997.

The Alaska Power Administration Asset Sale and Termination Act (Title I of P.L. 104-58) was signed into law on November 28, 1995. Additional transition and termination funding was provided to APA through an appropriations transfer, signed into law on April 26, 1996, as P.L. 104-134. A detailed transition plan for the Eklutna Project was signed on May 28, 1996, and work continues on a similar plan for the Snettisham Project. In each case, operations and maintenance of the project will be contracted to the purchasers/current customers until the final transaction date with direction and oversight provided by APA.

Another area of significant progress is the realignment and reduction of APA staff. Consistent with the transition plans, APA has only 11 employees remaining, a reduction of 20 from an onboard strength of 31 just six months ago. And I expect that level to be further reduced to under 10 by April 1997. This level is approaching the minimum level necessary to continue to meet our obligations (to DOE and others) as a Federal agency, to provide remaining "oversight" of the two projects, and to complete remaining transition activities (land issues, financing, Eklutna rewind contract, etc.), and relies heavily on the assumption that "project staffing" will be provided under contract.

All of us at APA appreciate your continued support and the support of our customers and stakeholders. This support allows APA to fulfill its mission and ensure that the people of Alaska continue to benefit from these valuable renewable resources, as we continue our transition and termination efforts.

Sincerely,

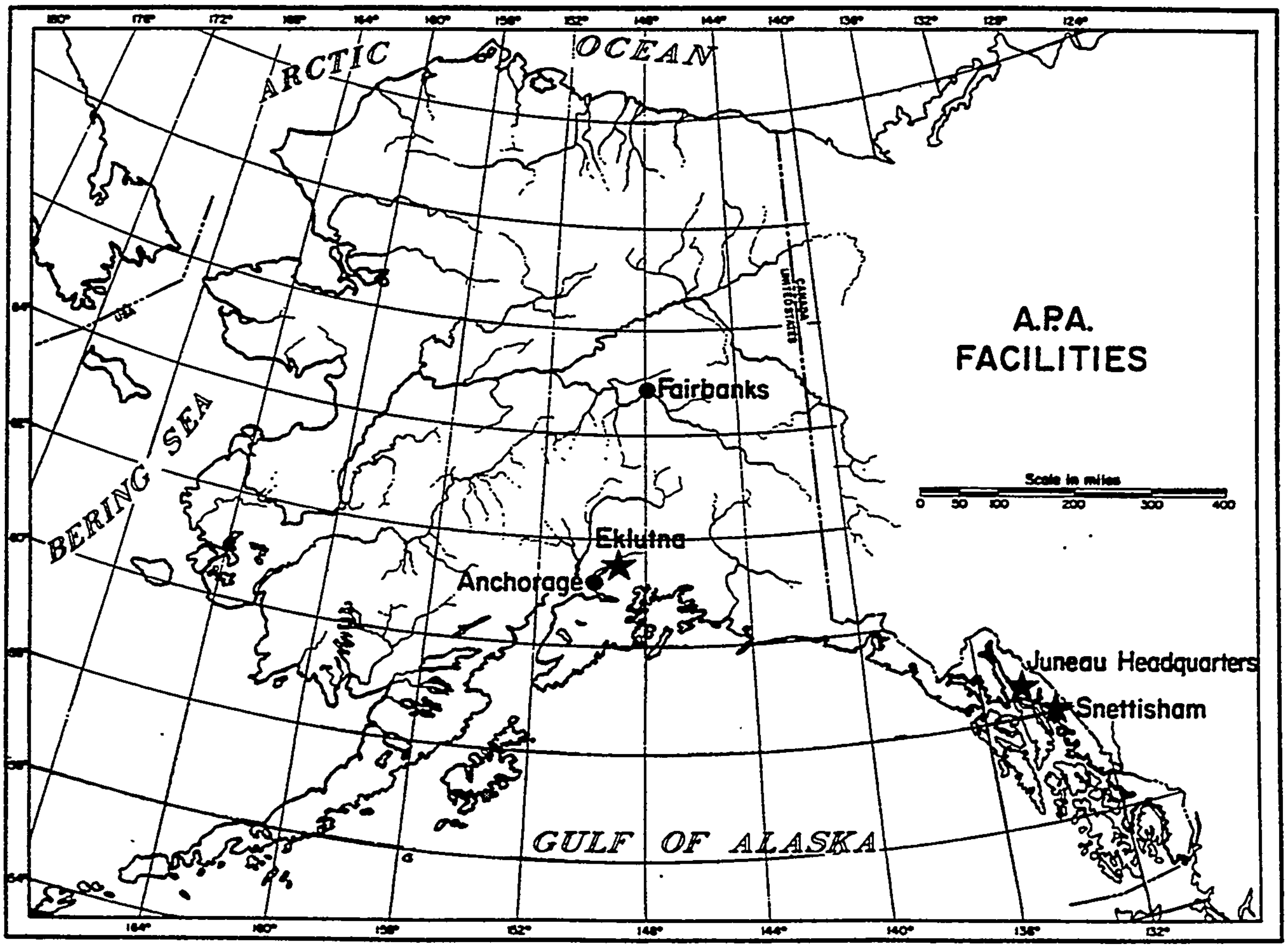
Rodney L. Adelman

Rodney L. Adelman
Administrator

Overview

MISSION

The Alaska Power Administration (APA) will continue to encourage economic and industrial development in Alaska through implementing the divestiture of APA assets in a manner consistent with the authorizing legislation while balancing all the stakeholders' interests. APA will provide our employees opportunities for successful career transitions and conduct an efficient transfer of assets and closeout of APA, while continuing to provide our customers reliable, low-cost hydroelectric energy during the transition. (Revised March, 1996)



Overview

FISCAL YEAR 1996 ACCOMPLISHMENTS

- APA operated and maintained two hydroelectric projects that include 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. Both of the power transformers were delivered, installed and made operational during FY 1995 at a cost of $678,411, and continued successful operation in FY 1996.

  - 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 began in October of 1996, with completion expected in September of 1997.

  - Maintained an availability rate of 99.97% for generation and 99.97% for transmission capacity.

  - Consistent with the APA Asset Sale and Termination Act, comprehensive environmental and safety inspections were conducted of both projects. Deficiencies identified during these inspections will be corrected prior to the Transaction Date for each project.

  - 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: On September 30, 1996, APA received approval on an interim basis by the Deputy Secretary of Energy for a new rate (of 8.8 mills) for the Eklutna Project that implements the operation and maintenance contract with the purchasers. The new rate will go into effect on October 1, 1996.

- Snettisham rate activities: 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 rates are 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. The contract requires the power purchaser to put up a reservation fee by December 1 of each year to hold their right to purchase an allotment of APA surplus power. The fee is a percentage based on the cost of the total surplus power allotted to the purchaser. If the allotment is fully taken, then the purchaser gets the fee totally refunded. Anything less than 100% usage of the allotment allows APA to retain that part of the fee and it is returned to Treasury as revenue.

- APA continued to encouraged the use of surplus, clean, renewable hydroelectric energy with special dual fuel rates that accounted for 9,726 mWh of incentive fuel sales that returned an additional $121,831 in revenue to the U.S. Treasury. The fuel oil saved through the "dual fuel" program was 317,764 gallons which was replaced with 9,002 mWh of clean hydro generated electricity. The wood smoke replacement program accounted for the balance of surplus energy marketed at 724 mWh. This program reduced air pollution in problem areas due to wood smoke.

FUTURE

Eklutna Replacements

APA 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 began in October 1996, and the work should be completed in September 1997.

Eklutna As-Built Transmission Line Survey

APA contracted through the Western Area Power Administration for an as-built survey of the Eklutna Transmission Line during FY 1996. A copy of the survey has been provided to the Eklutna Purchasers and the Bureau of Land Management for their use in resolving a variety of land issues in connection with the transfer of the Eklutna Project. A major emphasis during FY 1997 will be resolution of all land issues remaining as an impediment to the final transfer of the Project.

Overview

Snettisham Bonding

A provision in the Small Business Job Protection Act of 1996 (Section 1804 of P.L. 104-188) authorizes the State of Alaska to use private activity "tax-exempt" bonds to finance the purchase of the Snettisham Project. As part of the "due diligence" process necessary for preparation of the bond prospectus, a contractor for the State (Raytheon) has conducted a series of tests and inspections of the project and related facilities. Another major emphasis during FY 1997 will be to resolve or correct deficiencies identified as part of the due diligence process. In addition, land issues involving transfer of the Snettisham Project will be a focus of our FY 1997 workload.

APA Strategic Plan

APA's Strategic Plan was revised in March of 1996, to reflect our new mission as a result of the enactment of the APA Asset Sale and Termination Act. As a result, the APA Divestiture Transition Plan will be revised in FY 1997 and then continuously updated until final termination of APA.

APA Asset Sale and Termination Act Implementation

Implementation of the Alaska Power Administration Asset Sale and Termination Act will be the primary mission of APA until final termination. A detailed Transition Plan for the Eklutna Project was signed on May 28, 1996, and work continues on a similar plan for the Snettisham Project. In addition, a comprehensive Operations and Maintenance contract for Snettisham will be concluded in the near future. A primary focus of APA during the next fiscal year will be implementation of those plans and contrcts. At the present time, our best estimate of final transfer of both projects is November 28, 1997. Following close-out activities and preparation of a final Report to Congress, APA will be terminated as an agency.

Management's Discussion and Analysis

RESULTS OF OPERATIONS

In FY 1996, APA had combined project sales and gross revenues totaling 446.4 million kWh and $12,340,037 respectively. This was APA's highest revenue year on record. Receipts exceeded cash outlays before repayment to the U.S. Treasury by $8.6 million.

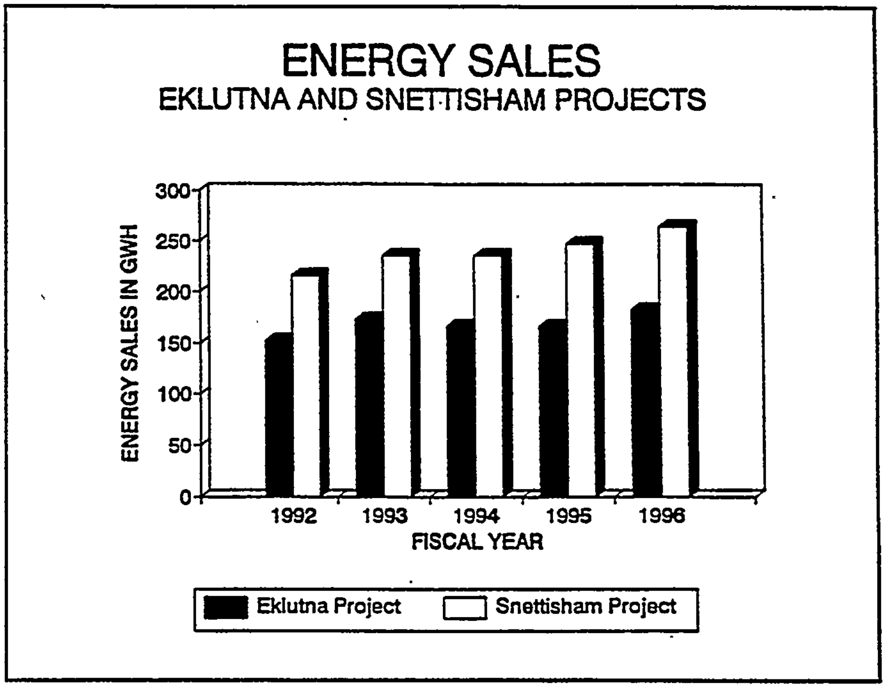
The cost figures used in the Management's Discussion and Analysis are based on APA's Annual Rate Studies; therefore, the figures may not match costs in the financial statements. The Annual Rate Studies use operation and maintenance (O&M) expenses (not including annual leave adjustment) and changes to 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 most recent 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 energy rates by the projected energy sales shown in the APA Power Repayment Study (PRS). Any additional generation is available at no charge. As a result, our customers generally take all the energy that can be produced from water flowing into the Eklutna reservoir. The 1995 rate adjustment to 1.87 cents per kWh was still among the lowest cost energy available; however, with the recent signing of the Eklutna O&M contract, O&M responsibility has been accepted by the purchasing utilities. With this contract, APA has been able to reduce O&M and, therefore, the rate for Eklutna power to .88 cents per kWh starting October 1, 1996. The reservoir began the year above its normal operating level (about 7 feet). We were anticipating sales of 164 million kWh, which is consistent with the plant's average generation. Actual sales of 182.1 million kWh were realized, or approximately 11% above average generation. The reservoir ended the year 19 feet below normal. This combined with the need to draw the reservoir down prior to the beginning of the generator rewinds led to the greater-than-expected generation in FY 1996. Gross Revenues in FY 1996 amounted to $3,101,237 which is an increase over the prior year of 10.6%.

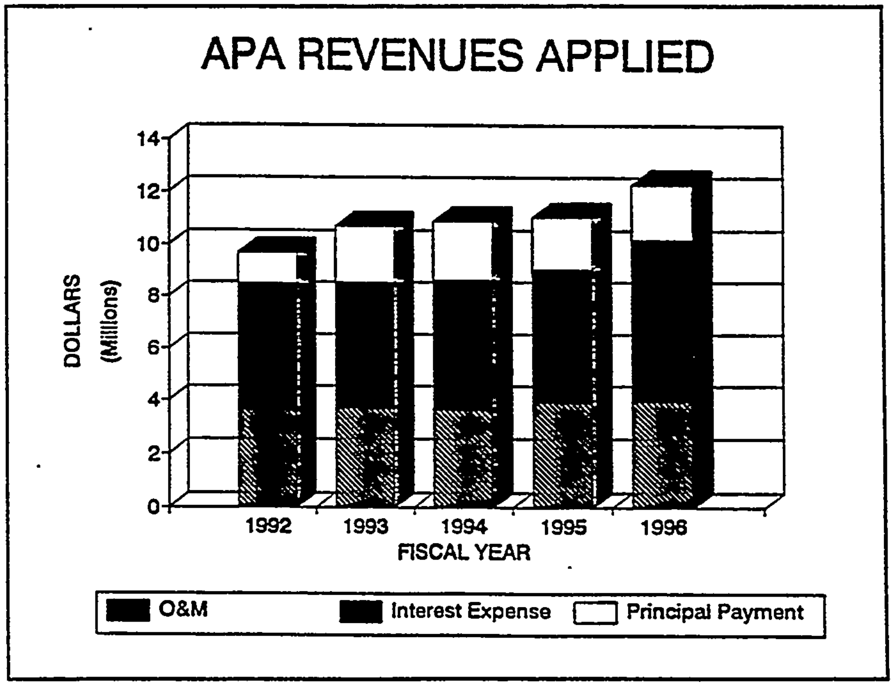
Management's Discussion and Analysis

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 1996 were 264.3 million kWh, which helped bring gross revenue to a record of $9,238,800. Gross revenues were up (16.1%) from the previous year, and were also up from that planned by 5.2%.



EXPENSES

Combined project operation and maintenance and general and administrative expenses from the Power Rate Study were $4,024,607; up .1% from 1995. Overall, operation and maintenance expenses averaged just 0.9 cents/kWh which is down 5.3% from last year.



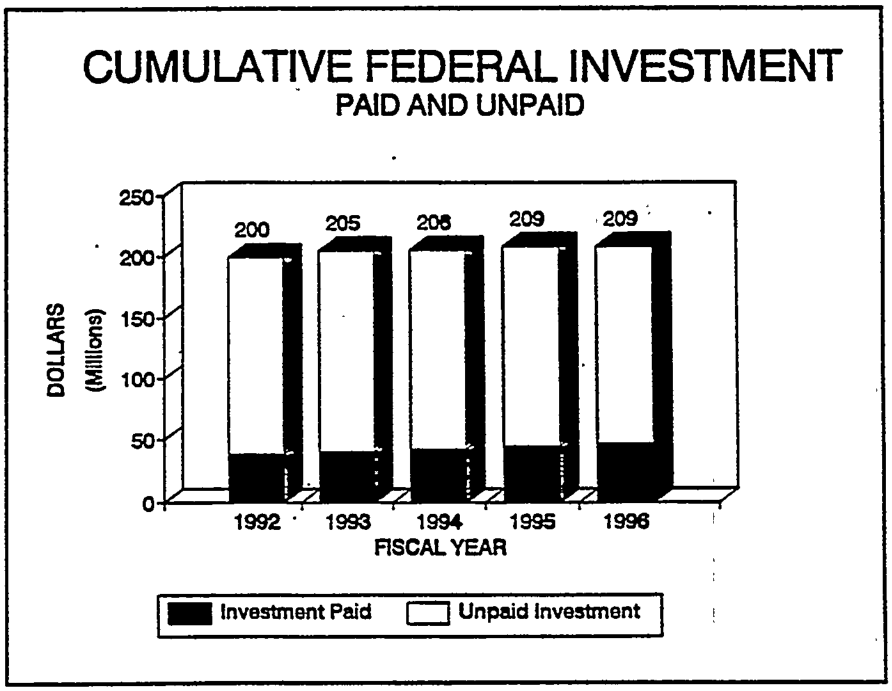
Interest expense on unpaid project principal of

Management's Discussion and Analysis

$4,814,190 was up slightly in FY 1996. Interest on the unpaid principal at the Snettisham Project now accounts for over 97.1% of the total agency interest expense; the remaining 2.9% is for unpaid Eklutna Project investment, replacements, and deferred Crater Lake Interest.

DEBT SERVICE

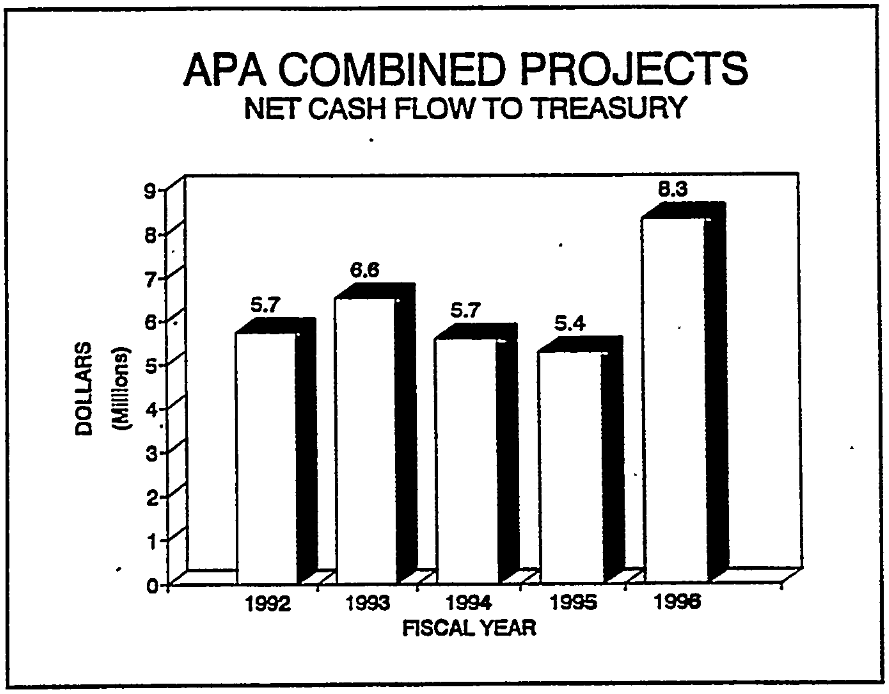
Annual revenues were sufficient to pay annual operation and maintenance expenses, all interest expenses and provide principal payments of $2,128,568 to apply against the unpaid Federal investment, and $1,389,122 to apply against deferred Crater Lake interest. The principal payment was up 31% over that planned amount to be paid. The increase is due to lower than expected O&M costs and higher than expected revenue from generation. The principal paid was $499,042 more than planned resulting in a debt service coverage ratio for FY 1996 of 130.6%. The average debt service coverage ratio for the last five years was 117.4%.



REPAYMENT

The cumulative Federal investment through the end of FY 1996 is $208.7 million. This includes project principal and replacements. Over the life of the Projects, the ratepayers have repaid $46.4 million in principal and replacements, in addition to $83.4 million in interest and $61.5 million for operation and maintenance. The unpaid balance remaining due to the U.S. Treasury is $163.3 million in principal, unpaid replacements, and deferred Crater Lake interest. On a Project basis, the 41-year-old Eklutna facility has repaid 85.3% of its investment, and the younger Snettisham facility has repaid 9.8% of its investment.

Management's Discussion and Analysis

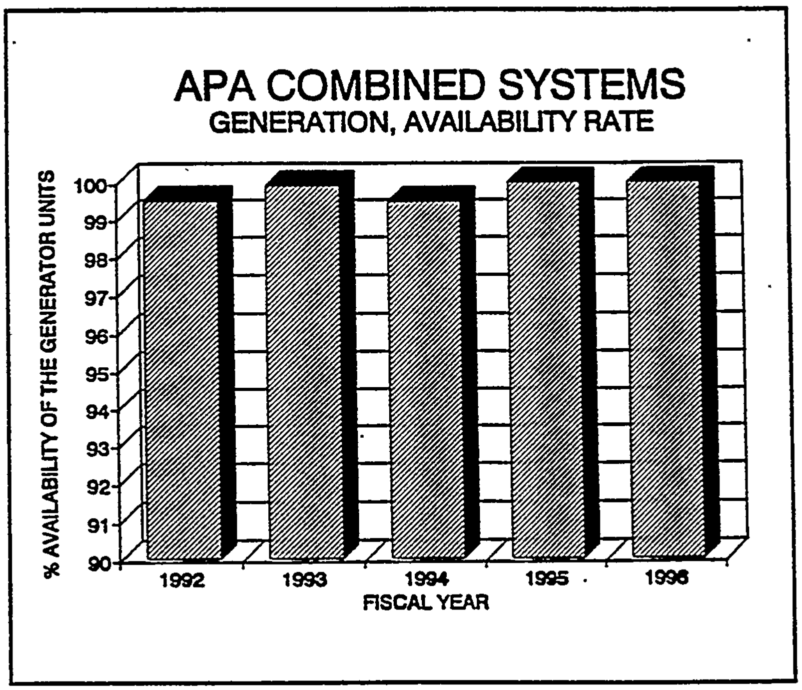


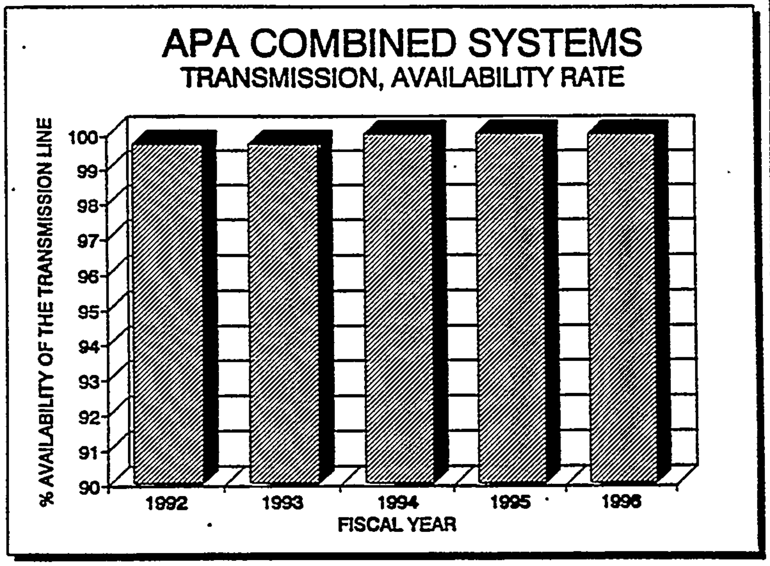
NET CASH FLOW

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 1996, APA revenues received exceeded cash outlays by $8.6 million.

SYSTEM RELIABILITY

The availability rate that APA uses as a performance indicator 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 North American Electric Reliability Council recognized formula for calculating an unweighted Forced Outage Ratio (FOR). The availability rate is determined by subtracting the FOR from a perfect availability of one hundred percent (100%).





In FY 1996, the generation and transmission systems maintained an average availability rates of 99.97% and 99.97% respectively. This resulted in APA being able to maintain an outstanding 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 statements of assets, Federal investment and liabilities of Alaska Power Administration (APA) as of September 30, 1996 and 1995, and the related combined statements of revenues, expenses and accumulated net revenues, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As disclosed in note 1 to the combined financial statements, the Department of Energy is divesting itself of the assets of APA.

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, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated December 12, 1996, on our consideration of APA's internal control structure and a report dated December 12, 1996, on APA's compliance with laws and regulations.

Our audits were 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 years ended September 30, 1996 and 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 audits 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.

Independent Auditors' Report

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 audits 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 to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 12, 1996

Combined Statements of Assets, Federal Investment and Liabilities

September 30, 1996 and 1995

Assets		1996	1995
Assets held for sale, net (note 2)		83,166,000	87,000,000
Current assets:			
Unexpended appropriations (note 6)		10,427,370	4,301,185
Accounts receivable		792,193	1,057,584
Imprest fund		7,000	7,000
		11,226,563	5,365,769
Total assets	$	94,392,563	92,365,769
Federal Investment and Liabilities			
Federal investment:			
Investment of U.S. Government (note 5):			
Congressional appropriations		102,770,389	93,025,389
Interest during construction		11,091,219	11,089,502
Transfers from other federal agencies		141,803,245	141,765,943
Interest on federal investment		86,441,789	81,622,649
Gross investment of U.S. Government		342,106,642	327,503,483
Funds returned to U.S. Treasury		(169,345,603)	(157,329,142)
Less funds related to the Civil Service Retirement System (note 7)		658,128	585,048
		(168,687,475)	(156,744,094)
Net investment of U.S. Government		173,419,167	170,759,389
Accumulated net revenues (deficit)		(79,504,053)	(78,797,506)
Total federal investment		93,915,114	91,961,883
Accounts payable and accrued liabilities		477,449	403,886
Total federal investment and liabilities	$	94,392,563	92,365,769

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

Combined Statements of Revenues, Expenses and Accumulated Net Revenues

Years ended September 30, 1996 and 1995

		1996	1995
Revenues (note 3):			
Sales of electric power:			
Municipalities	$	1,584,586	1,446,134
Rural cooperatives		1,386,513	1,265,367
Privately owned utilities		9,100,869	7,852,500
Other		109,576	86,916
Wheeling		101,527	89,060
Other operating revenues		56,966	19,552
Total revenues		12,340,037	10,759,529
Expenses (note 5):			
Operations and maintenance		1,732,612	1,758,857
General and administrative		2,291,995	2,102,672
Depreciation and amortization		-	3,016,186
Loss on assets held for sale (note 2)		3,834,000	80,934,408
Other, net		368,837	100,530
Total expenses before interest expense		8,227,444	87,912,653
Net revenues (deficit) before interest expense		4,112,593	(77,153,124)
Interest expense on federal investment (note 5)		(4,819,140)	(4,875,916)
Net deficit		(706,547)	(82,029,040)
Accumulated net revenues (deficit) at beginning of year		(78,797,506)	3,231,534
Accumulated net deficit at end of year	$	(79,504,053)	(78,797,506)

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

Combined Statements of Cash Flows

Years ended September 30, 1996 and 1995

		1996	1995
Cash provided by operating activities:			
Net deficit	$	(706,547)	(82,029,040)
Items not requiring cash:			
Decrease in assets held for sale		3,834,000	80,934,408
Interest expense on federal investment		4,819,140	4,875,916
Depreciation and amortization expense		-	3,016,186
Decrease (increase) in accounts receivable		265,391	(692,271)
Increase in accounts payable and accrued liabilities		73,563	174,105
Other		-	425
Net cash provided by operating activities		8,285,547	6,279,729
Cash used in investing activities:			
Additions to plant in service		-	(1,631,696)
Interest during construction		1,717	8,317
Net cash provided by (used in) investing activities		1,717	(1,623,379)
Cash used in financing activities:			
Funds returned to U.S. Treasury		(12,016,461)	(9,106,208)
Congressional appropriations		9,745,000	6,505,751
Transfers from other agencies		37,302	320,687
Increase in Civil Service Retirement System liability		73,080	90,270
Net cash used in financing activities		(2,161,079)	(2,189,500)
Net increase in cash		6,126,185	2,466,850
Cash at beginning of year		4,301,185	1,834,335
Cash at end of year	$	10,427,370	4,301,185

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 and transmitted by the APA projects represent 100 percent of the operations of APA. The electric power is required to be utilized in such a manner as to encourage the 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.

The Divestiture of the APA projects and termination of APA as a Federal Agency was first formally proposed in 1986. Purchase Agreements were signed in 1989 with the purchasers (an Agency of the State of Alaska purchasing the Snettisham Project, and the three current power customers, Municipal Light and Power, Chugach Electric Association, Inc., and Matanuska Electric Association, Inc., purchasing the Eklutna Project). The Alaska Power Administration Asset Sale and Termination Act became Public Law 104-58 on November 29, 1995. That Act started a two-year clock for transfer of the Eklutna Project. The clock for the Snettisham Project did not begin until the State of Alaska passed a law authorizing its purchase and the Federal Government passed a law that allowed the State of Alaska to use private activity tax-exempt bonds for the purchase. The State of Alaska's purchase authorization bill was signed on June 27, 1996 and the Federal tax exemption was signed into law as Section 1804 of the Small Business Job Protection Act of 1996, Public Law 104-188, on August 20, 1996.

Basis of Presentation
These financial statements combine the financial information for the Eklutna and Snettisham projects. They have been prepared from the books and records of APA in accordance with generally accepted accounting principles.

These statements are therefore different from the financial reports 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 (FAS) No. 71, *Accounting for the Effects of Certain Types of Regulation.* The provisions of FAS No. 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.

Accounting Estimates and Assumptions
In preparing the combined financial statements in accordance with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of assets, federal investment and liabilities and revenues and expenses for the period. Actual results could differ from those estimates and assumptions. The more significant estimates and assumptions applied in the preparation of the combined financial statements are discussed below.

Utility Plant and Depreciation
Prior to 1996, APA's method of computing depreciation of utility plant was the straight-line method based on the estimated service lives of the various classes of property. In accordance with DOE regulations, assets were not considered to be placed into service until the end of the fiscal period in which they become operational. Service lives averaged approximately eighty-seven years for the Eklutna Project and seventy-five years for the Snettisham Project. Depreciation expense was $2,587,881 in 1995. No depreciation was recorded in 1996 because the Eklutna and Snettisham projects were written down to their net realizable values at the end of 1995. The assets are considered held for sale due to the pending divestiture.

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.

The projects (Eklutna and Snettisham) have net billing arrangements with power purchasers whereby operations and maintenance expenses are offset against revenues. The net revenues received are returned to the U.S. Treasury.

PL 104-58 authorized APA the use of contributed funds under Section 103(f). APA is authorized to receive, administer, and expend such funds as may be provided by the purchasers or their customers for the purposes of upgrading, improving, maintaining, or administering either of the projects.

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 Expense on Federal Investment
Interest expense 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 the Federal investment bearing the highest interest rate first.

(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. Title I of this bill authorizes and directs the sale of APA assets in accordance with the purchase agreements. The bill was signed by the President of the United States on November 28, 1995 as Public Law 104-58, Alaska Power Administration Asset Sale and Termination Act. The State passed Bill BN526 authorizing the purchase of the Snettisham Project, which was signed into law by the Governor on June 27, 1996. The Small Business Job Protection Act of 1996, Public Law 104-188, was signed by the President on August 20, 1996. Section 1804 of the Act allowed the State to use private activity tax exempt bonds to purchase Snettisham. 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 expected to occur no earlier than July 1, 1997, and no later than November 28, 1997 for the Eklutna Project and August 20, 1998 for the Snettisham Project.

The future divestiture of APA will result in the remaining eleven employees being terminated. Given this, APA has accrued $265,000 in termination benefits as of September 30, 1996. This amount is reflected in the fiscal year 1996 combined statement of revenues, expenses and accumulated net revenues as a component of other expense. The amount of the accrual is an estimate of costs to be incurred by APA in the future as a result of the termination of the remaining employees. Termination benefits paid in the future will be charged against the liability.

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 November 28, 1997, the sales prices for the Eklutna and Snettisham projects are estimated to be approximately $5,747,000 and $77,419,000, respectively, totaling $83,166,000. The projects are considered to be held for sale as of September 30, 1996, and have been written down to estimated net realizable value as follows:

Carrying value of assets held for sale at beginning of year	$ 87,000,000
Loss on assets held for sale	(3,834,000)
Estimated net realizable value	$ 83,166,000

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. An interim rate increase for the Eklutna Project has been filed and was approved by the Deputy Secretary of the Department of Energy, effective October 1, 1996 and forwarded to FERC for final confirmation. The rate schedule 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 Snettisham Power Project
The Snettisham Project was designed by the U.S. Army Corps of Engineers (Corps). Snettisham was a phased project with the Long Lake project coming on line first with commercial service beginning in 1976. The Crater Lake phase began commercial production in June 1991. With the ultimate completion of the project administration, the Corps formalized the transfer of all costs and property to APA, through a transfer of title on June 1, 1995.

(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 1996 and 1995. 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 1996 and 1995.

(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 accounted for the prior unfunded costs of CSRS in fiscal year 1994. Total expense for this cost was $73,080 in 1996 and $90,270 in 1995.

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. APA also contributes the employer's matching share for Social Security.

(8) Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments,* requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of assets, federal investment and liabilities, for which it is practicable to estimate that value. The fair value of APA's financial instruments which include unexpended appropriations, accounts receivable, imprest fund, accounts payable and accrued liabilities approximates their carrying values. APA has no off balance sheet financial instruments.

Combining Information–Assets, Federal Investment and Liabilities

September 30, 1996 and 1995 — Schedule 1

Assets	Combined Totals 1996	Combined Totals 1995	1996 Eklutna	1996 Snettisham	1995 Eklutna	1995 Snettisham
Assets held for sale	83,166,000	87,000,000	5,747,000	77,419,000	7,178,000	79,822,000
Current assets:						
Unexpended appropriations	10,427,370	4,301,185	6,821,132	3,606,238	3,733,501	567,684
Accounts receivable	792,193	1,057,584	257,641	534,552	481,498	576,086
Imprest fund	7,000	7,000	3,500	3,500	3,500	3,500
	11,226,563	5,365,769	7,082,273	4,144,290	4,218,499	1,147,270
Total assets	$ 94,392,563	92,365,769	12,829,273	81,563,290	11,396,499	80,969,270
Federal Investment and Liabilities						
Federal investment:						
Investment of U.S. Government:						
Accumulated congressional appropriations	102,770,389	93,025,389	71,480,007	31,290,382	66,452,174	26,573,215
Interest during construction	11,091,219	11,089,502	1,909,047	9,182,172	1,909,047	9,180,455
Transfers from other federal agencies	141,803,245	141,765,943	(1,497,650)	143,300,895	(1,497,650)	143,263,593
Interest on federal investment	86,441,789	81,622,649	20,669,211	65,772,578	20,531,428	61,091,221
Gross investment of U.S. Government	342,106,642	327,503,483	92,560,615	249,546,027	87,394,999	240,108,484
Funds returned to U.S. Treasury	(169,345,603)	(157,329,142)	(80,824,559)	(88,521,044)	(77,600,819)	(79,728,323)
Less funds related to the Civil Service Retirement System	658,128	585,048	345,971	312,157	310,573	274,475
	(168,687,475)	(156,744,094)	(80,478,588)	(88,208,887)	(77,290,246)	(79,453,848)
Net investment of U.S. Government	173,419,167	170,759,389	12,082,027	161,337,140	10,104,753	160,654,636
Accumulated net revenues (deficit)	(79,504,053)	(78,797,506)	542,691	(80,046,744)	1,092,400	(79,889,906)
Total federal investment	93,915,114	91,961,883	12,624,718	81,290,396	11,197,153	80,764,730
Accounts payable and accrued liabilities	477,449	403,886	204,555	272,894	199,346	204,540
Total federal investment and liabilities	$ 94,392,563	92,365,769	12,829,273	81,563,290	11,396,499	80,969,270

Combining Information–Revenues, Expenses and Accumulated Net Revenues

Years ended September 30, 1996 and 1995 — Schedule 2

	Combined Totals		1996		1995	
	1996	1995	Eklutna	Snettisham	Eklutna	Snettisham
Revenues:						
Sales of electric power:						
Municipalities	$ 1,584,586	1,446,134	1,584,586	-	1,446,134	-
Rural cooperatives	1,386,513	1,265,367	1,386,513	-	1,265,367	-
Privately owned utilities	9,100,869	7,852,500	-	9,100,869	-	7,852,500
Other	109,576	86,916	9,299	100,277	2,119	84,797
Wheeling	101,527	89,060	101,527	-	89,060	-
Other operating revenues	56,966	19,552	19,312	37,654	1,200	18,352
Total revenues	12,340,037	10,759,529	3,101,237	9,238,800	2,803,880	7,955,649
Expenses:						
Operations and maintenance	1,732,612	1,758,857	558,570	1,174,042	574,527	1,184,330
General and administrative	2,291,995	2,102,672	1,400,496	891,499	1,073,664	1,029,008
Depreciation and amortization	-	3,016,186	-	-	400,194	2,615,992
Loss on assets held for sale	3,834,000	80,934,408	1,431,000	2,403,000	14,144,258	66,790,150
Other, net	368,837	100,530	123,096	245,741	56,163	44,367
Total expenses before interest expense	8,227,444	87,912,653	3,513,162	4,714,282	16,248,806	71,663,847
Net revenues (deficit) before interest expense	4,112,593	(77,153,124)	(411,925)	4,524,518	(13,444,926)	(63,708,198)
Interest expense on federal investment	(4,819,140)	(4,875,916)	(137,784)	(4,681,356)	(153,319)	(4,722,597)
Net deficit	(706,547)	(82,029,040)	(549,709)	(156,838)	(13,598,245)	(68,430,795)
Accumulated net revenues (deficit) at beginning of year	(78,797,506)	3,231,534	1,092,400	(79,889,906)	14,690,645	(11,459,111)
Accumulated net revenues (deficit) at end of year	$ (79,504,053)	(78,797,506)	542,691	(80,046,744)	1,092,400	(79,889,906)

Combining Information–Cash Flows

Years ended September 30, 1996 and 1995 Schedule 3

	Combined Totals		1996		1995	
	1996	1995	Eklutna	Snettisham	Eklutna	Snettisham
Cash provided by operating activities:						
Net deficit	$ (706,547)	(82,029,040)	(549,709)	(156,838)	(13,598,245)	(68,430,795)
Items not requiring cash:						
Decrease in assets held for sale	3,834,000	80,934,408	1,431,000	2,403,000	14,144,258	66,790,150
Interest expense on federal investment	4,819,140	4,875,916	137,784	4,681,356	153,319	4,722,597
Depreciation and amortization expense	-	3,016,186	-	-	400,194	2,615,992
(Increase) decrease in accounts receivable	265,391	(692,271)	223,857	41,534	(203,781)	(488,490)
Increase in accounts payable and accrued liabilities	73,563	174,105	5,209	68,354	86,747	87,358
Other	-	425	-	-	-	425
Net cash provided by operating activities	8,285,547	6,279,729	1,248,141	7,037,406	982,492	5,297,237
Cash used in investing activities:						
Additions to plant in service	-	(1,631,696)	-	-	(678,411)	(953,285)
Interest during construction	1,717	8,317	-	1,717	-	8,317
Net cash used in investing activities	1,717	(1,623,379)	-	1,717	(678,411)	(944,968)
Cash provided (used) by financing activities:						
Funds returned to U.S. Treasury	(12,016,461)	(9,106,208)	(3,223,741)	(8,792,720)	(2,473,467)	(6,632,741)
Congressional appropriations	9,745,000	6,505,751	5,027,833	4,717,167	4,584,094	1,921,657
Transfers from other agencies	37,302	320,687	-	37,302	-	320,687
Increase in Civil Service Retirement System Liability	73,080	90,270	35,398	37,682	52,142	38,128
Net cash provided (used) in financing activities	(2,161,079)	(2,189,500)	1,839,490	(4,000,569)	2,162,769	(4,352,269)
Net increase in cash	6,126,185	2,466,850	3,087,631	3,038,554	2,466,850	-
Cash at beginning of year	4,301,185	1,834,335	3,733,501	567,684	1,266,651	567,684
Cash at end of year	$ 10,427,370	4,301,185	6,821,132	3,606,238	3,733,501	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, 1996, and have issued our report thereon dated December 12, 1996.

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.

Independent Auditors' Report on the Internal Control Structure

In planning and performing our audit of the combined power system financial statements of APA for the year ended September 30, 1996, 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, we assessed control risk and performed tests of the internal control structure 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.
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 December 12, 1996.

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

December 12, 1996

KPMG Peat Marwick LLP

601 West Fifth Avenue
Suite 700
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, 1996, and have issued our report thereon dated December 12, 1996.

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
- 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

December 12, 1996

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601 West Fifth Avenue
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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, 1996, and have issued our report thereon dated December 12, 1996. 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 that information be available to understand why expense accounts change from year to year. APA only has three expense accounts for each project. APA is unable without considerable research to provide a breakdown of its broad expense categories in sufficient detail to determine the reasons that expenses changed from the prior year. As in the prior year, the lack of sufficient detailed information prevents APA from effectively monitoring and controlling expenses.

Recommendation

APA should maintain more specific detail of expenses. This detail should be compared 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 was used through September 30, 1996. It did not generate a breakdown of the various expenses. It was not cost effective to overhaul the IAS software because it will be discarded due to the pending sale of APA. A substitute used by APA for a number of years to track and project expenditures is APA's Status of Funds 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. Beginning October 1, 1996, Southeastern Power Administration will take over APA's financial accounting duties. APA will forward this recommendation for their consideration.

2. JOURNAL ENTRIES

Approval and Verification of Accuracy

Audit Comment

An effective internal control environment requires separation of duties between the person inputting information into the general ledger and the person approving the information. As was the same in the prior year, almost all fiscal year 1996 journal entries were prepared and entered into the general ledger by the same person. These entries into the accounting records were not approved or verified by a supervisor.

Recommendation

APA should establish procedures that provide for independent verification and approval of data posted to the accounting records by accounting personnel for non-recurring journal entries and consider other alternative procedures for recurring journal entries.

Management's Response

APA management concurs with the recommendation. APA was unable to have a supervisor review and approve the non-recurring journal voucher entries due to the Secretary of Energy's requirement to eliminate as many supervisors as possible. APA will correct this in FY 1997 by having Southeastern Power Administration process our finances where current staffing levels do allow for proper internal controls.

Management Letter

Supporting Documentation

Audit Comment

An effective internal control environment requires that each entry made to the accounting records be supported by documentation that shows why the entry was made and how the amounts were determined. APA was unable to locate supporting documentation for a recurring monthly entry that was posted the general ledger. The employee who had prepared and inputted the entry is no longer employed by APA and therefore cannot assist in locating the document. However, the implementation of an approval process for journal entries (as discussed above) would have been effective in identifying and correcting this problem.

Recommendation

APA should implement procedures to ensure that proper documentation exists for all entries made to the accounting records. The adequacy of the documentation and the propriety of the entry should be verified by someone other than the person who prepared and input the entry.

Management's Response

APA management also concurs with this recommendation. APA will forward this recommendation on to Southeastern Power Administration who will be certain that the adequacy of the documentation and the propriety of the entry will be verified by someone other than the person who prepared and input the entry.

3. PROMPT PAYMENT ACT

Audit Comment

The Prompt Payment Act (Act) requires that government entities pay their bills within 30 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. APA's fiscal year 1996 Prompt Payment Report submitted to the Department of Energy (DOE) indicated that 35 payments were made late totaling $233,587 for which interest was not paid to the vendors. Also, APA paid 30 invoices totaling $84,438 more than eight days before the due date.

The accuracy of the Prompt Payment Report submitted to the DOE could not be verified because APA was unable to provide support for the amounts included in the report.

Recommendation

APA should reemphasize to employees the requirement to follow the administrative procedures in place to prevent early or late payment of invoices. In addition, APA should maintain adequate supporting documentation for the report submitted to DOE.

Management's Response

APA concurs with the recommendation. This problem should be finally corrected in FY 1997 with the transfer of APA financial functions to Southeastern Power Administration which is staffed to process payments as required by the Act.

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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

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