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Statement for the Record

of

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U.S. General Accounting Office

Before the

Subcommittee on Panama Canal/Outer Continental Shelf

of the Committee on Merchant Marine and Fisheries

U.S. House of Representatives

on

Bill to Amend the Panama Canal Act of 1979

Mr. Chairman and Members of the Subcommittee:

We are pleased to present our views on the proposed Amendments to the Panama Canal Act of 1979. Presented in our statement are our views on Accounting Policies and Auditing which you indicated were of particular interest to the Subcommittee.

Accounting Policies

Section 4 amends Section 1311(b) of the Panama Canal Act of 1979, to clarify that regulations issued establishing the basis of accounting for assets for the use of the Commission shall be issued



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pursuant to the Accounting and Auditing Act of 1950. We agree with this clarification. The proposed amendments still retain the provision that would allow for depreciation of the net replacement value of the assets which will ultimately require replacement. This provision is contrary to both generally accepted accounting principles and the principles and standards of the Comptroller General and we suggest that it be deleted.

In our report entitled "Examination of the Panama Canal Commission's Fiscal Year 1980 Financial Statements and Treaty-Related Issues (ID-81-49, June 29, 1981)," we reported that certain requirements of the Panama Canal Act of 1979 complicate the Commission's approach to accounting. For example:

- Section 1311(a) requires the Commission to establish and maintain its accounts pursuant to the Accounting and Auditing Act of 1950 (31 U.S.C. 65 et. seq.); that is, to adhere to the principles and standards of the Comptroller General.
- Section 1341(e)(1) requires the Commission to determine its operating expenses in accordance with generally accepted accounting principles; that is, in the same manner as a nongovernmental business enterprise.
- Section 1603(a) provides that the costs to be capitalized for construction projects will not include interest costs; this is counter to both generally accepted accounting principles and

the principles and standards of the Comptroller General.

Although generally accepted accounting principles and the principles and standards of the Comptroller General are generally compatible, they do not always agree in detailed application. The Commission's decision to present separately its Statement of Changes in Financial Position and its Statement of Status of Appropriations is a tacit recognition of these differences. Further, these differences have a pronounced effect on the design of the Commission's accounting system.

Because the Commission is an appropriated funded Agency we believe that to eliminate the inconsistency in accounting principles, the appropriate sections of the Panama Canal Act of 1979 should be amended to require the Commission to adhere to the principles and standards of the Comptroller General.

Audit by the Comptroller General

The major change made by Section 5 in amending Section 1313 of the Panama Canal Act of 1979, is to eliminate the requirement that our report include a statement listing all direct and indirect costs incurred by the United States in implementing the Panama Canal Treaty of 1977, including the cost of property transferred to the Republic of Panama during each fiscal year. In our fiscal year 1979 and 1980 reports on the audit of the Commission's financial statements, we pointed out problems in determining treaty-related costs. Primary among these is the absence of a criterion for determining treaty-related costs. As a result of these problems,

we suggested in our report entitled "Examination of the Panama Canal Commission's Fiscal Year 1980 Financial Statements and Treaty-Related Issues (ID-81-49, June 19, 1981)," a number of alternatives for congressional consideration. We pointed out then, and we still believe, that the annual requirement for reporting by most, if not all, agencies could be eliminated from the Act without diminishing the expressed intent of Congress to keep cost to an absolute minimum. The Congress could still raise questions about these costs while exercising its oversight function through the budget process. Therefore, we agree with this proposed amendment to Section 1313 of the Panama Canal Act of 1979.

We would like to take this opportunity to point out additional audit requirements which we believe warrant your consideration in amending the Panama Canal Act of 1979.

Certification of Estimated Revenues

We are required by Section 1302(c)(2) to certify the Secretary of Defense's estimate of Commission revenues for the fiscal year. Our current work will lead to a report dealing with fiscal year 1983 revenues. The three certifications we have made (and the one for 1983 as well) are all highly qualified because the outcome of future events is so uncertain. At the same time, we can say that the Commission's methodology seems reasonable and generally will result in a reasonably accurate estimate of future revenues. Further, we see no advantage to the Commission to either understate or overstate its revenue estimates. Therefore, we see no advantage

accruing to the Congress by our continued certification of estimated revenues on an annual basis and suggest that this requirement be deleted. As an alternative, we would consider how revenue estimates, as well as budgets, are developed in the course of our normal work.

Public Service Payments to Panama

Section 1341(a) of the Act of 1979 provides that we shall audit the \$10 million public service payments to Panama annually. During the first 2 years, we have limited our audit to ensuring that the payment was made by the Commission. However, during the third year, it is contemplated that Panama will submit data supporting an increase or decrease in the annual payment. If, and when, that data is submitted, it will be possible for us to review what has been submitted, but verification of the data will require access to records of the Government of Panama. We do not have a clear right of access to such data, making an effective audit impossible. For this reason we suggest that the requirement for audit of the payment be deleted from the Act. We will, in the normal course of our audit work, consider and review the data submitted by Panama and evaluate the actions of the Commission with respect to this data.

Bases for Tolls

The proposed amendment to Section 1602(b) of the Panama Canal Act of 1979 adds to the illustrative enumeration of costs to be covered by tolls "reimbursements to the Treasury of the United States for costs incurred by other departments and agencies of the

United States in providing educational, health, and other services in accordance with Section 1321 of the Act."

We have no objection to adding to the items of cost provided for in 22 U.S.C. § 3792(b); however, we question whether it is intended that those reimbursements are to be deposited in the Treasury. Section 1321(d) of the Act, 22 U.S.C. § 3731(d), provides that the "[a]mounts expended for furnishing services shall be fully reimbursable to the department or agency furnishing the services." We understand this to mean that the reimbursements will go directly to the agency concerned rather than to the Treasury.

If the Committee does not intend a change in subsection 1321(d) then the words "to the Treasury of the United States" should be deleted from the amendment. On the other hand, if the Committee does intend to have those reimbursements deposited in the Treasury, section 1321 should be made consistent. Moreover, the legislation also should make it clear into which Treasury account the reimbursements are to be deposited.

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This completes my statement, Mr. Chairman.