

7

[initials]

**AUDIT REPORT
TO
THE CONGRESS OF THE UNITED STATES**

FILE

**UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
DEPARTMENT OF STATE
FOR THE FISCAL YEARS ENDED JUNE 30, 1956 AND 1957**

**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES**

745224/087962

March 18, 1958

**AUDIT REPORT
TO
THE CONGRESS OF THE UNITED STATES**

**UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
DEPARTMENT OF STATE
FOR THE FISCAL YEARS ENDED JUNE 30, 1956 AND 1957**

**BY
THE COMPTROLLER GENERAL OF THE UNITED STATES**



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON 25

MAR 18 1958

B-125014

Honorable Sam Rayburn
Speaker of the House of Representatives

Dear Mr. Speaker:

Herewith is our report on the audit of the United States Section, International Boundary and Water Commission, United States and Mexico, Department of State, for the fiscal years ended June 30, 1956 and 1957.

This report includes comments and recommendations on the allocation of estimated construction costs of Falcon Dam Project. (See pages 3 to 5.) The report comments also upon the status of other recommendations included in our report to the Congress on the United States Section dated June 4, 1956. (See pages 6 to 11.)

A copy of this report is being sent today to the President of the Senate.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "W. P. Campbell".

Comptroller General
of the United States

Enclosure

C o n t e n t s

	<u>Page</u>
GENERAL COMMENTS	1
Status of principal findings and recommendations in previous report	2
ALLOCATION OF ESTIMATED TOTAL CONSTRUCTION COSTS TO PURPOSES OF FALCÓN DAM AND POWER PLANT	12
Allocation and other responsibilities of the Secretary of the Interior through the Bureau of Reclamation for Falcón Dam and power plant	12
Allocation report on estimated construction costs to purposes of Falcón Dam Project	14
Costs not included in total construction costs for allocation	14
Allocations of construction costs not made properly to purposes served by the project	15
Recommendation to the United States Commissioner	21
REPAYMENT OF CONSTRUCTION COSTS ALLOCATED TO REIMBURSABLE PURPOSES	24
ELECTRIC PLANT CONSTRUCTION AND OPERATION--FALCÓN DAM AND POWER PLANT	26
Marketing operations	27
Financial results from power operations	29
Energy production and disposition	30
Leasing of Falcón Reservoir lands	31
ACCOUNTING AND FINANCIAL POLICIES	33
Development of accounting system	33
Cost accounting practices	33
Distribution to power and nonpower purposes of operation and maintenance expenses of joint features	36
Provisions for depreciation of facilities	36
Interest on the Federal investment	38
FINANCING	39
Appropriations by the Congress	39
Revenues and disposition	41
Source and application of funds	42
SCOPE OF AUDIT	44
OPINION OF FINANCIAL STATEMENTS	45

	<u>Schedule</u>	<u>Page</u>
FINANCIAL STATEMENTS		
Statement of assets and liabilities--June 30, 1957 and 1956	1	48
Statement of results from power operations, for the fiscal years ended June 30, 1957 and 1956	2	49
Statement of expenses of nonreimbursable operations, for the fiscal years ended June 30, 1957 and 1956	3	50
Notes to financial statements		51
	<u>Appendix</u>	
APPENDIXES		
History and organization of the United States Section	A	57
Interim schedule of rates for sale of peaking capacity, Falcón Project (Schedule R5-S2)	B	62
Map of United States-Mexican Boundary and Commission projects	C	65

REPORT ON AUDIT
OF
UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO
DEPARTMENT OF STATE
FOR THE FISCAL YEARS ENDED JUNE 30, 1956 AND 1957

The General Accounting Office has made an audit of the UNITED STATES SECTION, INTERNATIONAL BOUNDARY AND WATER COMMISSION, UNITED STATES AND MEXICO, for the fiscal years ended June 30, 1956 and 1957. This audit was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of the audit work performed is described on page 44 of this report.

GENERAL COMMENTS

The United States Section, International Boundary and Water Commission, United States and Mexico (also referred to as Section or as United States Section), operates under the foreign policy direction of the Department of State. This activity was created by the treaty of March 1, 1889 (26 Stat. 1512), between the United States and Mexico, with jurisdiction to examine and decide questions arising on the fluvial boundary between the two countries growing out of changes in the beds of the boundary streams, works constructed in these streams, or any other cause affecting the boundary. The Commission's jurisdiction was extended to the overland boundary from El Paso, Texas, to the Pacific Ocean by the Water Treaty of February 3, 1944 (59 Stat. 1219).

The United States Section is headed by a Commissioner who is appointed by and serves at the pleasure of the President. The United States Commissioner is responsible to the Secretary of State in matters of policy. The headquarters office is located in El Paso, Texas, and field offices have been established along the United States-Mexican border.^① Appendix A contains additional information on the history and organization of the United States Section.

The financial statements in this report were prepared from the records of the United States Section. Financial statements, however, cannot be presented that show fairly the financial position and results of water and power operations until (1) the allocation to purposes of estimated total construction costs for Falcón Dam Project is finally resolved and the allocation to power is approved by the Secretary of the Interior, in collaboration with the Secretary of State and (2) the United States Section puts into effect certain accounting and financial policies regarding the recording of costs, the distribution to power and nonpower purposes of operation and maintenance expenses of joint features, and interest on the Federal investment.^② Discussions on accounting and financial policies appear on pages 33 through 38.

STATUS OF PRINCIPAL FINDINGS AND RECOMMENDATIONS IN PREVIOUS REPORT

Our previous report to the Congress on the audit of the United States Section for fiscal years 1954 and 1955 (B-125014 dated June 4, 1956) contained comments and recommendations relating to our findings. Our audit for fiscal years 1956 and 1957

showed that certain of the findings and recommendations had not been completely or satisfactorily resolved. The current status of these findings and recommendations is summarized as follows:

1. Allocation of estimated construction costs of Falcón Dam Project to purposes

The Secretary of the Interior, in collaboration with the Secretary of State,^① is authorized under the act of June 18, 1954 (68 Stat. 255), to allocate to the power purpose the capital investment in Falcón Dam and power plant.

The project was substantially completed by November 1953, but an allocation of construction costs to power was not approved by the Secretary of the Interior, in collaboration with the Secretary of State, and the allocation to other project purposes was not final at the completion of our current audit. The allocation report submitted to the Bureau of Reclamation, Department of the Interior, in March 1955, was not approved because costs of joint features^② were omitted by the Section from the allocation to power.¹

¹In a letter dated February 3, 1958, the Administrative Assistant Secretary of the Interior informed us that the interim power rate schedule approved by the Federal Power Commission on December 28, 1956, for the sale of electric power from Falcón Dam, was based on the maximum of revenue obtainable from a limited market and not on the basis of rates required to recover the cost of power. He stated that several years of operating experience may be required to form a firm basis for agreement between the Departments involved in the cost allocation process. This letter stated also that on May 1, 1957, the Bureau of Reclamation advised the Secretary of State that it expects to utilize data and power system experience in the determination of a proper allocation of costs. It was stated further that, until such time as additional authorized upstream storage on the Rio Grande is planned in detail or constructed, it is impossible to determine the ultimate firm generating capacity of Falcón Dam and power plant.^③

As stated below and in our previous report, allocations of the total estimated construction costs to the United States of the Falcón Dam Project, prepared by the United States Section and reported to the Bureau of Reclamation, do not include all costs incurred on the project, and allocations of costs of joint features to the extent appropriate have not been made to all purposes served by the project.

- a. The total estimated construction cost to the United States considered for cost allocation purposes does not include \$574,053 (as adjusted from \$603,000 since our previous audit) for preliminary surveys and testing costs paid from funds appropriated to the United States Section for construction of the Falcón Dam Project.
- b. The allocation to power of the United States' total estimated construction cost was based on only the direct costs of specific power facilities.
- c. No portion of the total estimated construction cost to the United States of the Falcón Dam Project has been allocated to irrigation, although reports of the United States Section and testimony by officials of the Section before congressional committees disclosed that considerable benefits would be derived from the project by water users in the Lower Valley in Texas.

At the completion of our field audit for fiscal years 1956 and 1957, action had not been taken regarding these matters. Accordingly, we are repeating our recommendations in the previous report on the Section to the Congress dated June 4, 1956, that (1) the United States Section include \$574,053 for preliminary surveys and testing costs as part of the total estimated construction cost to the United States of the Falcón Dam Project, (2) the United States make the allocation of the total estimated construction cost of the Falcón Dam Project so that each purpose will bear to the extent appropriate a share of the costs of joint features, and

(3) in the final allocation of costs of the Falcón Dam Project, an appropriate portion of the costs of the project to the United States be allocated to irrigation.

Our current audit disclosed that certain additional costs, such as costs of outlet works and penstocks, resulting from the inclusion of hydroelectric power for the Falcón Dam Project, were not allocated to power as direct power costs; also certain costs of plans and specifications are not allocated to project purposes. We are recommending to the United States Commissioner that these costs be allocated appropriately.¹

Comments on the allocation report on total estimated construction cost are included on pages 14 to 23 of this report.

¹By letter dated January 10, 1958, the United States Commissioner advised us that it was the view of the Section that only additional costs incurred in construction of power facilities, over and above costs of constructing the project without power, should be allocated to power and that, although he still believes that this position is sound, he recognizes that there is also merit in the views held by the General Accounting Office regarding allocations to power. Accordingly, he has, with the approval of the Department of State, allocated additional amounts to power. He advised us, in November 1957 and January 1958, that the allocation of construction costs was revised and that (a) preliminary surveys and testing costs previously excluded from the allocation of construction costs were allocated to flood control (\$139,294) and to power (\$70,072); (b) a portion of the costs of Falcón Village previously allocated to flood control (\$236,985) was reallocated to power; and (c) a portion of the costs of outlet works and penstocks previously included in the flood control allocation (\$47,256) was also reallocated to power. He advised us also that additional amounts were included for interest during construction and that the allocations to power are necessarily tentative, pending determination by the Secretary of the Interior in collaboration with the Secretary of State.

2. Works on Lower Rio Grande Flood Control Project
not turned over to local interests
for operation and maintenance

The Lower Rio Grande Flood Control Project^① within the United States is operated and maintained by the United States Section at Federal cost, although substantial benefits are derived from the project by local interests.^② Costs to the United States Section of the Commission for operating and maintaining the Lower Rio Grande Flood Control Project were \$374,869 in fiscal year 1957 and \$302,324 in fiscal year 1956 compared with \$203,034 and \$268,248 in fiscal years 1955 and 1954, respectively.^③

In our previous report to the Congress, we pointed out that existing flood control law provides generally that local flood protection works constructed by the Federal Government be operated and maintained by and at the cost of local interests. The project was authorized for construction by an exchange of notes in 1932 between the United States and Mexico, each country agreeing to perform work within its own border at its own expense. Under the act of August 19, 1935 (22 U.S.C. 277-277d), the President is authorized to transfer responsibility to local interests for operation and maintenance of this project, with continuing supervision by the United States Commissioner. We were informed by the Commissioner that transfer of these works for operation and maintenance by local interests would not be practicable because satisfactory guarantees for continued operation and maintenance by such local interests could not be given and that the international character of the project requires uninterrupted operation and maintenance.

3. Costs of operating and maintaining sanitation projects

The United States Section has negotiated an agreement with the city of Douglas, Arizona, which provides that the city will bear annually the lesser of \$4,500 or 75 percent of the annual operation and maintenance costs of the Douglas-Agua Prieta Sanitation Project that are allocated to the United States by an agreement with Mexico that is yet to be consummated.

The effect of the agreement with the city of Douglas is to obligate the Federal Government, in perpetuity, to pay part of the cost of operating and maintaining the sewage treatment plant constructed for the benefit of, and without cost to, the city of Douglas. Pending execution of the agreement between the United States and Mexico, such costs are borne now entirely by the city of Douglas.

An agreement similar to that with the city of Douglas, Arizona, was in process of being negotiated with the city of Nogales, Arizona, at the time of our audit for the fiscal years 1954 and 1955.

In our previous report to the Congress dated June 4, 1956, we recommended that, if the Commission assumes responsibility for operating and maintaining these projects, the United States Section should obtain full reimbursement from the cities of Douglas and Nogales, Arizona, for their share of the costs of operating and maintaining the projects.

Our audit for fiscal years 1956 and 1957 disclosed that the United States Section entered into an agreement with the city of

Nogales, Arizona, on January 21, 1957. Under this agreement, the city will assume all the annual operation and maintenance costs of the Nogales Sanitation Project that are allocated to the United States, provided an agreement is reached between Mexico and the United States for the allocation of costs for operation and maintenance of the project. An amendatory contract that would give effect to the recommendation in our previous report, however, has not been executed with the city of Douglas, Arizona, to provide for the city to bear the entire cost eventually allocated to the United States for operation and maintenance of the sanitation project.¹

4. Transfer of responsibility for maintaining the western land boundary fence

In our previous report to the Congress, we pointed out that the construction and maintenance of the western land boundary fence were not pursued with vigor and work on construction had not been done by the Section since 1951. Also, funds had not been provided to the United States Section to maintain the fence and it was not in good repair in many places.

The primary purpose of the fence is to control livestock movement across the border to protect American livestock from diseases

¹In a letter dated January 10, 1958, the United States Commissioner informed us that the United States Section has endeavored to negotiate an amendatory contract with the city of Douglas substantially on the same terms as the contract with the city of Nogales. He stated, however, that the city of Douglas prefers to defer consideration of an amendatory contract pending the outcome of studies and investigations being made by the two Sections of the Commission, at the direction of the respective Governments, to determine the necessity of expansion of the sewage treatment plant.

carried by animals from Mexico. The fence serves the further purpose of control of human traffic and smuggling.

We stated that the Congress may wish to review the authorization to the United States Section for construction and maintenance of the fence and, if justified, to assign the responsibility for its construction and maintenance to a Federal agency more directly concerned with responsibilities for its purposes.

Our current audit disclosed that funds had not been provided to the United States Section for fiscal years 1956 and 1957 for the maintenance of the fence. The Commission, however, had reached an informal agreement with the Immigration and Naturalization Service, Department of Justice, for transfer to that agency of maintenance of all chain-link fence constructed by the United States Section. Discussions are being carried on with the Agricultural Research Service (formerly the Bureau of Animal Industry, Agricultural Research Administration), Department of Agriculture, which are expected to result in transfer to that agency of the responsibility for maintenance of the ranch-type fence constructed by the Section.

5. Settlement with Imperial Irrigation District of California ✓

The act of September 2, 1950 (64 Stat. 576), authorized a credit to the Imperial Irrigation District of California, for application against annual payments due from the district under a repayment contract with the United States, in an amount not greater than 80 percent of the costs incurred by the district in constructing, operating, and maintaining flood protection works located in,

along, or adjacent to the Colorado River in Arizona, California, and Lower California, Mexico, not to exceed \$3,000,000. The United States Commissioner of the International Boundary and Water Commission, United States and Mexico, was designated by the act to determine the amount of the credit to be given to the Imperial Irrigation District.

On February 1, 1954, the United States Commissioner, in a report to the Secretary of State, found that a credit of \$3,000,000 to the Imperial Irrigation District of California would be equitable under the act. In our previous report on the United States Section to the Congress, we stated that credit to the Imperial Irrigation District had been withheld pending the district's submission of evidence of title and a quitclaim deed granting to the United States a right-of-way on certain levee works in California. The Assistant Secretary of the Interior notified the Board of Directors, Imperial Irrigation District, on April 12, 1957, that the title of conveyance was examined and found to be valid, and pursuant to the act of September 2, 1950, credit of \$3,000,000 was allowed.

6. Weaknesses and deficiencies
in procedures and internal controls

In our previous report to the Congress dated June 4, 1956, we pointed out certain weaknesses and deficiencies in procedures and internal controls of the United States Section which we had reported to the United States Commissioner on September 23, 1955, as a result of our fiscal years 1954 and 1955 audit. Our audit for fiscal years 1956 and 1957 disclosed that many recommendations

included in the report were adopted by the Commission and that action taken included the following:

- a. Thirty-one vehicles and other articles of property, with an acquisition cost of about \$97,700, were surveyed and were either sold or declared to GSA as excess to the Section's needs.
- b. Managerial control was strengthened and accounting procedures were corrected for various functions found to be deficient during our previous audit; namely, revenue collections, storekeeping for warehouse stock and nonexpendable property, repair of vehicles, purchasing, and work order controls.
- c. One position (paying \$5,510 annually) was discontinued at Harlingen, Texas, by transferring the accounting function of that office to the headquarters office in El Paso, Texas. Administrative functions, however, are still performed at Harlingen.

Certain of the recommendations, however, were accepted only partially. These included the recommendations that general office engineering and administrative expenses be distributed to benefiting projects, instead of transferring such expenses to nonreimbursable costs, and that certain preliminary survey and investigation costs recorded as nonreimbursable be transferred to the proper accounts. For further discussion of these matters, see pages 34 and 35.

ALLOCATION OF ESTIMATED TOTAL CONSTRUCTION COSTS
TO PURPOSES OF FALCÓN DAM AND POWER PLANT

The allocation of construction costs of multiple-purpose projects to purposes is the division of the costs into amounts considered equitable to charge to each of the project purposes. The allocations are important because (1) the charges to beneficiaries for power services of the project are determined on the basis of the costs incurred and allocated to power and (2) an evaluation of costs to benefits of other purposes is not possible without an allocation of the costs to purposes served. The fairness in the reporting on financial administration and on the financial results from operations is dependent upon the reasonableness of the allocations.

ALLOCATION AND OTHER RESPONSIBILITIES
OF THE SECRETARY OF THE INTERIOR
THROUGH THE BUREAU OF RECLAMATION
FOR FALCÓN DAM AND POWER PLANT

The act of June 18, 1954 (68 Stat. 255), authorized the Secretary of the Interior to transmit and market electric power and energy generated at Falcón Dam which is made available to the United States and not required in the operation of the project. In collaboration with the Secretary of State, the Secretary of the Interior was authorized also to allocate the capital investment at Falcón Dam to power and to draw rate schedules having regard for the recovery of costs. By Secretarial Order No. 2765, dated July 30, 1954, the Secretary of the Interior delegated to the Bureau of Reclamation the duties of marketing Falcón Dam power and energy.

The Bureau of Reclamation is dependent upon the United States Section for basic information relating to the power investment of the United States in the project, including interest during construction. In the early part of fiscal year 1955, the Bureau requested a report on the allocation to purposes of total estimated construction costs and other project information needed to draw power rate schedules and prepare rate and repayment analyses in connection with marketing the power and energy from Falcoń Dam Project.

In March 1955 the United States Section submitted a report to the Bureau on the allocation to purposes of estimated total construction costs of Falcoń Dam Project. The allocation made to power was not approved by the Bureau because costs of joint features were omitted from the allocation.

The project was substantially completed by November 1953, but an allocation of construction costs to power had not been approved by the Secretary of the Interior, in collaboration with the Secretary of State, and the allocation to other purposes was not final at the completion of our current audit.

Until the allocation to purposes of the total estimated construction costs of the Falcoń Dam Project is finally resolved and the allocation to power is approved by the Secretary of the Interior, in collaboration with the Secretary of State, we will not be able to make an adequate evaluation of the status of repayment and the sufficiency of power rates.

did not include costs totaling about \$603,000 for preliminary surveys and testing financed from the construction appropriations. These costs, which were adjusted to \$574,053 by the Section since the previous audit, were incurred for the most part prior to the selection of the Falc6n Dam site and were omitted from the total estimated construction cost to the United States reported to the Bureau of Reclamation because the United States Section did not consider them to be part of the costs applicable to the project. Certain of the costs involved work of the Bureau of Reclamation primarily for developing cost estimates, determining the plan of construction, and the plans and specifications. We agree that certain costs incurred in the preliminary stages of the planning of a project may not be directly related to the project as finally planned. However, we believe that all preliminary survey and testing costs directly for or allocable to a specific project that is constructed are as essential to that project as the resulting plans and specifications and should be included as a part of the cost of the constructed project.

Allocations of construction costs not made properly to purposes served by the project

Allocations of the United States total estimated construction costs to power, as reported to the Bureau of Reclamation, are based only on the direct costs of specific power facilities plus a computed amount for interest during construction. No portion of the cost of joint facilities of the project was allocated to power. Moreover, the United States Section had not allocated in the report of March 1955 the total estimated construction cost to the

United States of the Falcón Dam Project to all purposes served by the project.

The legislative background of the Falcón Dam Project was cited by the United States Section as the basis for allocating only the cost of specific power facilities to power. The Falcón Dam Project was authorized by the Water Treaty of 1944 with Mexico (59 Stat. 1219) as a storage dam and reservoir for the purposes of conserving, storing, and regulating the waters of the Rio Grande. The treaty itself did not authorize the construction of hydroelectric power plants as part of the project, but it did provide that the joint Commission "shall study, investigate and prepare plans for plants for generating hydroelectric energy which it may be feasible to construct at the international storage dams on the Rio Grande." In Minute No. 192, dated September 7, 1949, the joint Commission approved, subject to the final approval of the two Governments, the inclusion of hydroelectric generating plants in the construction plan for the Falcón Dam Project. The Congress authorized the joint development of hydroelectric power at Falcón Dam in the act of October 5, 1949 (63 Stat. 701). Designs and specifications prepared during the initial planning by the Bureau of Reclamation, and the initial appropriations made by the Congress for construction of the project, provided for a multiple-purpose project which included hydroelectric power features.

On May 1, 1957, in answer to a letter from the Department of State dated April 16, 1957, which cited the legislative background of Falcón Dam Project as a basis for allocating only specific

power facilities costs to power, the Acting Commissioner, Bureau of Reclamation, stated that:

"*** Our consideration of the project's legislative history *** leads us to conclude that the law is broad enough to cover the inclusion of a share of joint costs in the allocation to power commensurate with the value of the power."

The Water Treaty of 1944 provided that the Falcón Dam Project construction costs were to be divided 58.6 percent to the United States and 41.4 percent to Mexico for the dam and 50 percent to each country for the power plants. On this basis, the estimated construction costs were divided as follows:

<u>Division of estimated costs</u>	<u>Dam</u>	<u>Power plants</u>	<u>Dam and power plants</u>
United States:			
Dam--58.6 percent	\$19,576,500	\$ -	\$19,576,500
Power--50 percent	<u>-</u>	<u>6,329,000</u>	<u>6,329,000</u>
Total	<u>19,576,500</u>	<u>6,329,000</u>	<u>25,905,500</u>
Mexico:			
Dam--41.4 percent	13,830,500	-	13,830,500
Power--50 percent	<u>-</u>	<u>6,329,000</u>	<u>6,329,000</u>
Total	<u>13,830,500</u>	<u>6,329,000</u>	<u>20,159,500</u>
Total	<u>\$33,407,000</u>	<u>\$12,658,000</u>	<u>\$46,065,000</u>

The estimated construction costs of the Falcón Dam Project for the above division of costs were prepared by the Bureau of Reclamation and were approved in Minute 192 of the Commission dated September 7, 1949.

The estimates prepared by the Bureau are shown by components, as follows:

<u>Components of estimated costs</u>	<u>Dam (cost excluding power)</u>	<u>Dam and power plants (cost with power)</u>	<u>Increase</u>
Earth dam	\$11,190,000	\$10,950,000	\$ -240,000
Spillway	15,585,000	14,710,000	-875,000
Outlet works:			
United States	3,162,000	4,536,000	1,374,000
Mexico	3,470,000	5,110,000	1,640,000
Power structures and equipment:			
United States	-	5,206,000	5,206,000
Mexico	-	5,553,000	5,553,000
Total	<u>\$33,407,000</u>	<u>\$46,065,000</u>	<u>\$12,658,000</u>

This estimate served as the basis, as developed in Minute No. 192, for dividing the costs of the project between the United States and Mexico. By approving Minute No. 192 the two Governments approved the division of costs, and the two Sections of the Commission then proceeded to make the allocations of work items on the basis of the quantities and unit prices used in the estimates, irrespective of whether the particular items were for construction of the dam or for construction of power facilities.

In addition to excluding the cost of joint facilities (e.g., the dam and appurtenant works) for consideration in the allocation to the power purpose, certain additional costs resulting from the inclusion of power in the Falcón Dam Project were omitted from the allocation to power reported to the Bureau of Reclamation. In the March 1955 report to the Bureau, the Section did not include in the allocation to power all additional costs, such as costs of the outlet works and penstocks, resulting from inclusion of power in the Falcón Dam Project.

The United States Section also had not allocated any part of the total estimated construction cost to the United States of the

Falcón Dam Project to irrigation. Testimony given by United States Section officials and discussions of the Falcón Dam Project before the Subcommittees of the Committees on Appropriations of the House of Representatives and the United States Senate disclosed that the project would result in considerable benefits to irrigation interests in the Lower Valley in Texas. Officials of the United States Section testified that the construction of the Falcón Dam Project, in conjunction with other works contemplated by the Water Treaty of 1944, would obviate the need for certain major features of the Valley Gravity Canal and Storage Project. This project had previously been proposed by the Bureau of Reclamation and authorized for construction under the Interior Department Appropriation Act, 1942 (55 Stat. 303), primarily as an irrigation project. As such, if the project had been constructed, a portion of the construction costs would have been repaid to the Federal Government by the water users. Discussions of the Falcón Dam Project disclosed that members of the congressional committees considered the United States to be obligated to construct the project under the terms of the Water Treaty of 1944 with Mexico, and the Congress did not require any portion of the United States share of the construction cost of the project to be repaid by the water users.

The United States share of water released through Falcón Dam is for irrigation purposes primarily and only incidentally for power. The United States water releases approximated 1,300,000 acre-feet in fiscal year 1956 and 464,000 acre-feet in fiscal year 1957. A shortage of water in fiscal year 1957 accounted for the reduction in the number of acre-feet released. Except during

flood conditions, all releases are based upon the request of the Special Water Master for the Lower Valley who is responsible to a district court of Hidalgo County, Texas, to see that the water required and available is released for irrigation purposes. Until October 1956, the Board of Water Engineers, State of Texas, was responsible for requesting water releases. Before Falcón Dam was constructed, the unregulated flow did not provide a dependable source of water for irrigation purposes. The construction of Falcón Dam, however, made possible releases of water for the specific needs of the irrigation interests, except during periods of water shortages.

In a letter dated November 16, 1955, the United States Commissioner advised us that allocation to irrigation of an appropriate portion of construction costs to the United States is a matter for determination by the Congress. He stated that the legislative history of the Falcón Dam Project shows that, while the Congress gave consideration to allocation to irrigation of a portion of the project costs, no such allocation was made, and the project was therefore built and has been placed in operation on that basis.¹

In addition to not allocating certain costs to power and irrigation, as shown above, the March 1955 allocation report submitted to the Bureau showed only a part (about \$1,100,000) of the cost of plans and specifications as allocated to purposes served by the project. Costs of plans and specification in the amount of \$1,057,818 were classified in the allocation report as "Other."

¹In a letter dated January 10, 1958, the United States Commissioner reiterated this position.

We were informed by officials of the United States Section that the \$1,057,818 represents the cost of plans and specifications prorated as applicable to the Mexican side of the project and therefore is not a cost of the project to the United States Section.

In Minute 190, dated August 13, 1948, the United States and Mexican Sections agreed that the provisions of article 5 of the Water Treaty of 1944 relating to the proration of construction costs between the two Governments could best be effected, and construction of the project could best be expedited, by allocating construction work items to each Section on the basis of estimated project costs to be financed by each Government. Under provisions of Minute 190, the preparation of all plans and specifications for the project was assigned to the United States Section. Reimbursement to the United States for the cost of plans and specifications that apply to the Mexican part of the project was not authorized by the minute or any subsequent agreement. The Bureau of Reclamation prepared the plans and specifications for the United States Section at a cost of about \$2,200,000.

In view of the agreement, the total cost of the work items assigned and apportioned to the United States Section should be the basis for the allocation to purposes of the estimated cost of the United States of the Falcón Dam Project.

Recommendation to the
United States Commissioner

In our previous report to the Congress, we recommended that the allocation (1) include \$603,000 of costs for investigations and surveys (amount adjusted by the United States Section since

the previous audit to \$574,053), (2) of a share of the joint costs be made to each purpose served to the extent appropriate, and (3) of an appropriate share of the project costs be made to the irrigation purpose. Our audit for fiscal years 1956 and 1957 disclosed that the situation relating to the allocation of total estimated construction costs and the allocation to purposes has remained unchanged. Accordingly, the recommendations in our previous report are repeated, as follows:

1. We believe that costs incurred in investigating, surveying, and testing prospective dam sites should be included as part of the total construction cost in the project. Costs incurred for work of this nature are as essential to the construction of the project as are costs incurred for materials and labor used in the erection of the dam.

We therefore recommend that the United States Section include the amount of \$603,000 (\$574,053 at June 30, 1957) of costs for investigations and surveys paid from funds appropriated for construction of Falcon Dam Project so that these costs are considered as a part of the total construction costs for allocation to purposes.

2. The allocation of total construction cost of Federal water resource projects to purposes is important in determining project costs to be repaid to the United States.

We recommend that the United States Section make the allocation to purposes of the total estimated construction costs of the Falcon Dam Project so that each purpose will bear to the extent appropriate a share of the joint costs.

3. We believe that costs of Federal water resource development projects should be allocated to all purposes benefiting from the projects, irrespective of the provisions made for repayment of project costs.

We therefore recommend that, in the final allocation of the total construction costs of the Falcon Dam Project, an appropriate portion of the cost of the project to the United States be allocated to irrigation.

We recommend also that:

1. All additional costs, such as costs of outlet works and penstocks, less any savings in costs resulting from the approved inclusion of hydroelectric power for Falcón Dam Project by Commission Minute 192, be allocated to power.

2. The costs of plans and specifications prorated as applicable to Mexico and classified as "Other" in the allocation report be allocated appropriately to purposes.

REPAYMENT OF CONSTRUCTION COSTS
ALLOCATED TO REIMBURSABLE PURPOSES

Legislation for marketing electricity produced for the United States at Falcón Dam provides for recovery of the Federal investment allocated to power. Under the act of June 18, 1954 (68 Stat. 255), power rates shall be drawn:

"*** having regard to the recovery *** of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power by the Secretary of the Interior, in collaboration with the Secretary of State, over a reasonable period of years."

An administrative policy has been established by the Department of the Interior for repayment of construction costs allocated to commercial power within 50 years from the date the facilities are placed in service. As applied by the Department, commercial power refers to electricity salable to other than project irrigation districts for irrigation pumping. Electricity produced at Falcón Dam for sale by the United States is not sold to project irrigation districts.

At June 30, 1957, the total estimated construction costs, including interest during construction, allocated to power totaled \$6,220,909 for Falcón Dam Project. (See p. 14.)

As power marketing agent for Falcón Dam Project, the Bureau of Reclamation has prepared a "Financial Analysis of Falcón Project," dated August 16, 1956, showing the anticipated revenues and estimated expenses including operation and maintenance expenses,

provision for replacements, and marketing expenses. The report shows that anticipated revenues are sufficient to recover expenses, excluding interest on the investment. The repayment of the net Federal investment in power, however, was not included in the report because the allocation to purposes of the estimated total construction costs of the project to the United States is not finalized and the allocation to power has not been approved by the Secretary of the Interior, in collaboration with the Secretary of State.

ELECTRIC PLANT CONSTRUCTION AND OPERATION--

FALCÓN DAM AND POWER PLANT

Falcón Dam is located on the Rio Grande about 130 miles upstream from Brownsville, Texas (Matamoras, Tamaulipas, Mexico), and about 75 miles downstream from Laredo, Texas (Nuevo Laredo, Tamaulipas, Mexico). The dam is 26,294 feet long (about 5 miles) and has a maximum height of 150 feet. When filled to its capacity of 4,085,000 acre-feet of water, the reservoir is about 60 miles long and 11 miles wide.

Two power plants, one on each side of the river, are identical in equipment and generating capacity and are owned by the United States and Mexico, respectively. The total installed capacity of the two power plants is 63,000 kilowatts. Each power plant, although interconnected for transfer of electric energy from one to the other, has a centralized control room with separate and independent facilities. The generation from the two power plants is combined and the total combined generation is divided equally between the United States and Mexico. From the United States share of the total generation, deductions are made for station and local use and one half of total transmission losses. The remaining United States portion of the energy generated is available for delivery to the Bureau of Reclamation.

Construction of Falcón Dam and power plant was started in December 1950 and was substantially completed by November 1953. Construction costs recorded by the United States Section for Falcón Dam and power plant at June 30, 1957, were \$34,348,295. The installation and testing of the generating units in the power

plants were completed during the early part of fiscal year 1955, and the first generator was placed in commercial operation October 11, 1954.

MARKETING OPERATIONS

An interim power contract was executed under date of October 1, 1954, between the Bureau of Reclamation and the Central Power and Light Company of Corpus Christi, Texas, providing therein for sale of all power and energy available to the United States not required in the operation of Falcón Dam during the period October 1, 1954, through June 30, 1955. The contract remained in force by supplement until April 30, 1957. Energy was charged at the rate of 2.7 mills per kilowatt-hour, and all deliveries were classed as dump energy service. According to officials of the United States Section, other types of power service were not then available for sale because of the arrangements for releasing water at Falcón Dam.

Except during flood conditions, United States water releases are based on the requirements of irrigators below the dam as communicated to the Special Water Master of Hidalgo County Court, Texas. He in turn advises the United States Section's office at Falcón Dam, and water is released to suit these requirements. The demands of downstream water users take priority over all other uses of water in the Falcón Reservoir in keeping with paragraph (c) of the Senate Resolution of April 18, 1945 (59 Stat. 1265), ratifying the Water Treaty of 1944. Paragraph (c) provides:

"That nothing contained in the treaty or protocol shall be construed as authorizing the Secretary of State

of the United States, the Commissioner of the United States Section of the International Boundary and Water Commission, or the United States Section of said Commission, directly or indirectly to alter or control the distribution of water to users within the territorial limits of any of the individual States."

The water is discharged through the generators of Falcón Dam power plants, to the extent of capacity, and through supplemental tunnels should the requirements exceed the power plant capacity.

As a means of deriving some salable peaking capacity¹ from the United States power capacity at Falcón Dam, Minute 205 dated May 21, 1956, was approved and adopted by the United States and Mexican Sections, providing for the release of water belonging to Mexico for the purpose of generating power when such release is not required for the irrigation interests in the Lower Valley. The Mexican Section can capture the water in downstream Mexican reservoirs for release when needed by that country. The use of Mexican water for power purposes permits the United States Section to deliver some peaking power. A power contract based on the newly available service was executed on April 30, 1957, with the Central Power and Light Company effective for the period May 1, 1957, to December 28, 1961.

The charges under the former contract were 2.7 mills per kilowatt-hour. The charges under the newly executed contract are 1.75 mills per kilowatt-hour for the first 400 hours times the billing demand and 1 mill per kilowatt-hour for the balance of

¹Capacity made available to assist a customer in meeting that portion of peak load which is above base load.

energy, plus an annual charge of \$15 per kilowatt. The annual kilowatt charge, however, is subject to reduction in the event power production is curtailed because of lack of water. The rate schedule (R5-S2) used in the contract of April 30, 1957, with Central Power and Light Company is shown in appendix B.

The rate schedule provides that the peaking capacity charge will be paid in October of each year. As of June 30, 1957, the Section had potential earnings of \$12,500, for the period June 11 through June 30, 1957, representing two thirds of the average monthly peaking capacity earnings of \$18,750. Because earnings of \$12,500 are potential at June 30, 1957, they are not shown in the financial statements for fiscal year 1957.

FINANCIAL RESULTS FROM POWER OPERATIONS

Since the power plants were placed in commercial operation in October 1954, the United States Section through June 30, 1957, derived power revenues of \$495,653 and incurred operating expenses, including depreciation, totaling \$724,846. Financial results from power operations for the fiscal years 1957 and 1956, based on the accounts of the Section, are shown as schedule 2. (See p. 49.)

Results of power operations are summarized as follows:

	<u>Fiscal year</u>		<u>Increase</u>
	<u>1957</u>	<u>1956</u>	
Operating revenues:			
Sales of electric energy	\$ <u>47,138</u>	\$ <u>199,410</u>	-\$ <u>152,272</u>
Operation and maintenance expenses	85,045	81,523	3,522
Multiple-purpose expenses distributed to power	31,635	31,406	229
Provision for depreciation	<u>156,148</u>	<u>155,145</u>	<u>1,003</u>
Total operating expenses	<u>272,828</u>	<u>268,074</u>	<u>4,754</u>
Net loss for the fiscal year exclusive of interest on investment allocable to power	\$ <u>225,690</u>	\$ <u>68,664</u>	\$ <u>157,026</u>

The increase in the net loss for fiscal year 1957 is largely attributable to the decrease in revenues resulting from unfavorable water conditions.

Included in the \$225,690 net loss from power operations for fiscal year 1957 and \$68,664 net loss for fiscal year 1956 are \$156,147 and \$155,145, respectively, for depreciation charged by the Section. The distribution of these charges between power and nonpower purposes has been made by the Section on the basis of power plant in service costs and certain plant in service assets considered by the Section to benefit power. Until the allocation to power is made properly and is firm (see pp. 12 through 23) and certain accounting and financial policies have been put into effect, financial statements cannot be presented that show fairly the financial position and results of operations of the Falcón Dam Project (see pp. 33 through 38).

ENERGY PRODUCTION AND DISPOSITION

The electric energy generated and interchanged and the disposition expressed in thousands of kilowatt hours, for fiscal years 1957 and 1956, are summarized as follows:

	Thousands of kilowatt-hours		
	Fiscal year		Decrease
	1957	1956	
Gross generation:			
United States plant	25,807	77,142	51,335
Mexican plant	<u>25,748</u>	<u>75,907</u>	<u>50,159</u>
Total	51,555	153,049	101,494
Less Mexico's share of gross generation	<u>25,809</u>	<u>76,524</u>	<u>50,715</u>
United States' share of gross generation	25,746	76,525	50,779
Interchange-in	<u>328</u>	-	<u>-328</u>
Total	<u>26,074</u>	<u>76,525</u>	<u>50,451</u>
Less:			
Station service use	955	920	-35
Camp use	859	883	24
Station losses	751	866	115
Interchange-out	<u>328</u>	-	<u>-328</u>
	<u>2,893</u>	<u>2,669</u>	<u>-224</u>
Sales to Central Power and Light Company for account of United States Section	<u>23,181</u>	<u>73,856</u>	<u>50,675</u>

The decrease in amount of power generated in fiscal year 1957 is due to unfavorable water conditions.

LEASING OF FALCÓN RESERVOIR LANDS

In our previous report to the Congress, we pointed out that the United States Section had in the past executed temporary leases with some former landowners who wanted to farm and graze livestock on lands acquired by the Government for Falcón Reservoir and that action was not taken by the Section to renew the leases when they expired. The matter was brought to the attention of the United States Commissioner who informed us that he would take action to execute leases, licenses, or permits with individuals using these lands.

Beginning in July 1956, certain Falcón Reservoir lands were leased to the former owners, and at June 30, 1957, there were under lease 19,625 acres of an available total of 23,939 acres. For fiscal year 1958, the approved budget included a specific request for funds to administer the Falcón Reservoir leasing program.

Charges of 5 cents an acre with a minimum of \$25 per lease were established by the United States Section pursuant to policy set forth in a Department of State memorandum on "Taking of lands at Falcón Dam," dated May 15, 1953. The memorandum provides that lands are to be leased to former owners at a nominal fee sufficient to provide revenues to meet the expenses of drawing and processing leases and inspecting the lands to see that terms of the leases are complied with.

The revenue from the leases totaled \$3,322 during fiscal year 1957. However, the total expenses during fiscal year 1957 applying to the Falcón Reservoir leasing program could not be determined

from the financial records because the costs of drawing and processing leases and administering lease provisions were not recorded separately from headquarters administrative expenses and operation and maintenance expenses of Falc3n Dam Project.

We discussed the matter with the United States Commissioner and suggested that total annual costs to the United States for leasing lands at Falc3n Reservoir be ascertained so that the Section can determine and establish rates adequate to cover the cost to the Government of the leasing program at Falc3n Reservoir.¹

¹In the letter of January 10, 1958, the United States Commissioner informed us that when the leasing program becomes stabilized the revenues are expected to be sufficient to cover the cost to the Government of administering the program.

*Somehow how
much of this
land is in the
wild land at 3,000
feet.*

ACCOUNTING AND FINANCIAL POLICIES

DEVELOPMENT OF ACCOUNTING SYSTEM

The accounting system in use by the United States Section is based on recognized accounting principles with the accounts for power operations maintained to the extent practicable in accordance with the uniform system of accounts prescribed for public utilities by the Federal Power Commission under the Federal Power Act (16 U.S.C. 825b). This system was developed jointly by representatives of the Office of Budget and Finance, Department of State, the United States Section, and the General Accounting Office. The conversion to the revised system was completed in March 1952. The new system is designed to provide management with meaningful data for reviewing operations and to provide a realistic and informative budget presentation to the Congress. The principles, procedures, and policies set forth in the Section's accounting manual were given approval by the General Accounting Office in January 1953.

The system of the Section is based on accrual accounting and distinguishes between capital and revenue expenditures. Capital expenditures are charged to fixed asset accounts, and revenue expenditures are charged to operations. A work order system has been prescribed for accumulating costs incurred for each kind of project work.

COST ACCOUNTING PRACTICES

Costs of administrative and other services rendered by other Federal agencies that benefit projects of the United States Section are not borne by the Section when not assignable to projects

pursuant to law or administrative policy. These services include rentals and other services furnished without charge by the General Services Administration and other Federal agencies, death and disability claims on account of Section employees paid by the Bureau of Employees' Compensation, Department of Labor, and amounts applicable to the Section's operations of the cost of the Civil Service Retirement System. Starting with fiscal year 1958, the retirement costs are to be borne by the Section on the basis of funds appropriated to the agency to meet these expenses.

Expenses of the Bureau of Reclamation incurred for marketing power from the Falcón Dam Project (United States Section) are not included in the power operating costs. The Bureau began marketing this power in fiscal year 1955. The expenses totaling \$35,196 for the 3 years ended June 30, 1957, were financed from appropriations to the Bureau.

In our audit report dated September 23, 1955, to the United States Commissioner for fiscal years 1954 and 1955, we recommended to the United States Commissioner that, in order to obtain accurate project costs, the general office engineering and administrative expenses incurred for the benefit of projects should be determined and distributed to the benefiting projects instead of transferring such expenses to nonreimbursable costs.

This recommendation was adopted in part. The United States Commissioner agreed to charge projects, so far as is practicable, only with the expenses of general engineering and administrative employees who directly benefit a project. Most of the general

office expenses, however, are not identifiable specifically to the benefiting projects, and a determination has to be made of the expenses to be prorated among the benefiting projects. Accordingly, the expenses requiring prorating will not be charged to benefiting projects.

In the same report to the United States Commissioner, we had recommended also that preliminary survey and investigation costs recorded as nonreimbursable costs be transferred to the proper accounts. Our audit for fiscal years 1956 and 1957 disclosed that certain of the costs had been transferred to the proper accounts. Preliminary survey and investigation costs, however, for Anzalduas Dam in the amount of \$12,282 remained classified as a nonreimbursable cost. Moreover, additional costs of preliminary surveys and investigations totaling \$574,053 for Falcón Dam Project were classified as nonreimbursable costs in fiscal year 1957 instead of being included in the plant in service account for Falcón Dam Project. In our opinion all preliminary surveys and investigations relating directly to projects are a proper cost to the project and should be so recorded.¹

¹In a letter dated January 10, 1958, the United States Commissioner informed us that \$12,282 for Anzalduas Dam will be transferred in the accounts. He advised us also that an additional \$234,038 has been charged to construction costs of Falcón Dam Project representing all preliminary survey and testing costs incurred by the Bureau of Reclamation after December 8, 1948, all such costs incurred by the Section after October 31, 1950, and interest on such costs during construction.

DISTRIBUTION TO POWER AND NONPOWER PURPOSES
OF OPERATION AND MAINTENANCE EXPENSES
OF JOINT FEATURES

Expenses of operating and maintaining multiple-purpose projects consist of amounts that can be identified directly to a specific purpose and amounts that are common to all purposes served by the project. The operation and maintenance expenses that can be identified to specific purposes are charged directly to those purposes, and the expenses common to all purposes require distribution. Expenses common to purposes served by a multiple-purpose project requiring distribution are:

1. Depreciation on investment in plant, property, and equipment jointly useful to the several purposes.
2. Operation and maintenance expenses common to all purposes, such as supervision and administration, camp expenses, reservoir operations, and similar activities.

Certain expenses incurred in fiscal years 1955, 1956, and 1957 were classified by the Section as multiple-purpose expenses and distributed at June 30, 1957, to flood control and power. The distribution was based on an estimate of the expenses of fiscal year 1957 operations without power as a purpose compared with the estimated expenses of operations including power. Consideration was not given to whether the relationship established for fiscal year 1957 applied equally to fiscal years 1956 and 1955.¹

PROVISIONS FOR DEPRECIATION OF FACILITIES

Accounting procedures outlined in the Manual of Accounts and Finance Procedures of the United States Section provide for

¹In the letter dated January 10, 1958, the United States Commissioner informed us that a reexamination will be made annually to determine the portions of multiple-purpose expenses properly allocable to flood control and power.

depreciation on all property in service based on property costs shown by the plant in service accounts. The straight-line method of depreciation is prescribed. Before fiscal year 1957 depreciation was recorded by the United States Section on certain office and automotive equipment only. During the fiscal year ended June 30, 1957, depreciation was computed and recorded on equipment, such as general office and automotive, and on plant in service for Falc6n Dam Project. Items of property have not been assigned a service life in excess of 100 years except that depreciation for land and land rights and reservoir, dam, and waterways has been computed by using a 150-year service life. Depreciation has not been recorded on the remaining plant in service consisting principally of single-purpose flood control plant. We were informed, however, that depreciation was being computed and would be recorded in fiscal year 1958 after completion of an analysis and survey of the remaining plant in service costs.

In fiscal year 1957 depreciation on the Falc6n Dam Project was computed for prior fiscal years beginning January 1, 1955, although the facilities were placed in service in October 1954. Manual procedures provide for recognition of transfers to plant in service in the depreciation base each 6 months. We believe that transfers to plant in service should be considered as of the first of the month following the availability to serve the project purposes and depreciation should be computed on this basis.¹

¹In the letter dated January 10, 1958, the United States Commissioner informed us that the Section's manual will be revised to provide for the computation of depreciation on this basis.

INTEREST ON THE FEDERAL INVESTMENT

Interest on the power portion of the United States Government's investment in the Falcón Dam Project has not been recorded in the accounting records as a deduction from revenues. Officials of the United States Section consider interest on the power investment to be a proper charge. Such a deduction, however, will not be made until the allocation of construction costs to purposes is finalized.

Similarly, interest during construction has not been recorded, although an amount was computed and allocated in the allocation report submitted to the Bureau of Reclamation in 1955 on the total estimated construction costs of Falcón Dam Project. (See p. 14.) Interest during construction when recorded will be added to the cost of plant in service.

Interest during construction ceases and interest during operations commences at the first of the month following the availability of the facilities to serve the project purposes.

FINANCING

APPROPRIATIONS BY THE CONGRESS

Funds required by the United States Section to carry out the activities of the Commission have been appropriated by the Congress under appropriation titles, and in amounts, as follows:

<u>Appropriation titles</u>	<u>Fiscal year 1957</u>	<u>Cumulative to June 30, 1957</u>
Salaries and expenses	\$ 506,000	\$13,708,408
Construction	-	64,662,960
Operation and maintenance	1,463,000	4,610,541
Rio Grande emergency flood protection	-	<u>350,100</u>
Total	1,969,000	83,332,009
Lapses and transfers	<u>49,280</u>	<u>244,148</u>
Total	<u>\$1,919,720</u>	<u>\$83,087,861</u>

Allotments (net) of \$5,834,088 from appropriations for National Industrial Recovery Administration and Public Works Administration are not included in the above tabulation.

Funds appropriated by the Congress for construction and Rio Grande emergency flood protection remain available to the United States Section until fully expended or rescinded. The last appropriation for construction was made for fiscal year 1955, and the last appropriation for Rio Grande emergency flood protection was made for fiscal year 1953. Funds appropriated for salaries and expenses and operation and maintenance are available for obligation only in the fiscal year for which the funds are appropriated. To June 30, 1957, amounts totaling \$171,652 for salaries and expenses, \$39,500 for operation and maintenance, and \$32,996 for construction lapsed or were transferred.

Appropriations for salaries and expenses have been made annually to the United States Section since the creation of the permanent Commission in 1894, under the Convention of 1889, and are used to finance general administrative and engineering costs incurred at the El Paso headquarters office. These appropriations finance also the costs incurred in making preliminary surveys and investigations which serve as a basis upon which authorizations for the construction of specific projects or facilities are granted.

Appropriations for construction are made to the United States Section to finance the costs of facilities to be constructed as part of approved projects undertaken to (1) provide flood protection and to conserve water, (2) correct sewage problems which result in the pollution of domestic water supplies and other health hazards, and (3) erect monuments to mark the boundary line between the United States and Mexico. Before fiscal year 1948, separate appropriations of construction funds were made by the Congress for each approved project. Beginning in fiscal year 1948, funds for construction are provided by a single appropriation for construction.

Appropriations for operation and maintenance were made initially in fiscal year 1954 to finance costs incurred in the operation and maintenance of completed construction projects and completed integral segments of projects under construction. Before fiscal year 1954, operation and maintenance activities were financed from the salaries and expenses and construction appropriations.

Appropriations for Rio Grande emergency flood protection were provided to pay the costs of emergency flood control work, including protection, reconstruction, and repair of all structures under the jurisdiction of the United States Section in the Rio Grande Canalization, Rio Grande Rectification, and Lower Rio Grande Flood Control Projects.

For fiscal year 1958, the United States Section obtained appropriations of \$505,000 for salaries and expenses, \$1,533,000 for operation and maintenance, and \$300,000 for construction under the Departments of State and Justice, the Judiciary, and Related Agencies Appropriation Act, 1958 (71 Stat. 57).

REVENUES AND DISPOSITION

All revenues (e.g., land and equipment rentals and sales of scrap, salvage, and equipment) collected by the United States Section, except those for rental of quarters at Fort McIntosh (Laredo), Texas, and Falcón Village, Texas, are covered into the United States Treasury as miscellaneous receipts. The budget presentations prepared by the United States Section provide for a reduction in the amount of funds requested for construction and operation and maintenance in the amount of the estimated revenue from rental of quarters at Fort McIntosh and Falcón Village, respectively.

Revenues collected by the Bureau of Reclamation as marketing agent for electric power and energy generated at Falcón Dam Project for the United States are deposited into the United States Treasury as miscellaneous receipts in accordance with the act of June 18, 1954 (68 Stat. 255). Revenues from sales of power generated at Falcon Dam through June 30, 1957, totaled \$495,653.

SOURCE AND APPLICATION OF FUNDS

A condensed statement of sources and application of funds is given below:

	Fiscal year 1957	Cumulative to June 30, 1957
Sources of funds:		
Appropriations by the Congress, net	\$1,919,720	\$83,087,861
Allotments of appropriations for NIRA and PWA, net	-	5,834,088
Contributions in aid of construction	-	212,906
Revenue from sales of power	<u>47,138</u>	<u>495,653</u>
Total	<u>\$1,966,858</u>	<u>\$89,630,508</u>
Application of funds:		
Costs of property, plant, and equipment including surveys and investigations, less retirements, sales, and other dispositions	\$1,532,028	\$61,881,621
Costs of operation, maintenance, and administration of non-revenue-producing operations, net	225,071	22,330,400
Costs of operating and maintaining Falc3n power plant	272,828	724,846
Revenues and other collections deposited with U.S. Treasury	73,163	592,721
Transfers of property or costs, net	<u>947,954</u>	<u>957,865</u>
	3,051,044	86,487,453
Less amounts included above for depreciation of fixed assets	<u>256,743</u>	<u>1,242,577</u>
	2,794,301	85,244,876
Increase (-decrease) in net working assets	<u>-827,443</u>	<u>4,385,632</u>
Total	<u>\$1,966,858</u>	<u>\$89,630,508</u>

Receipts from the sales of the United States portion of the electric power and energy generated at Falcón Dam are included above although the energy is delivered to the Bureau of Reclamation and sold by that agency without collections passing through the cash accounts of the United States Section. The collections are deposited by the Bureau of Reclamation into the United States Treasury as miscellaneous receipts. The United States portion of expenses of operating and maintaining the power plants are financed from annual appropriations to the United States Section by the Congress.

SCOPE OF AUDIT

Our audit of the United States Section, International Boundary and Water Commission, United States and Mexico, included a review of selected operating activities of the United States Section and a selective examination of financial transactions in the following manner:

1. We reviewed the basic treaties and laws authorizing the activities, and the pertinent legislative history, to ascertain the purposes of the activities and their intended scope.
2. We ascertained the policies adopted by the United States Section and reviewed those policies for conformance with basic treaties and legislation.
3. We reviewed the procedures followed by employees of the United States Section to determine the effectiveness of the procedures.
4. We did not make a detailed audit, but we examined certain selected transactions to the extent we deemed appropriate under the existing circumstances. Our examination was made with due regard for the nature and volume of transactions and the effectiveness of internal control. The examination of transactions was conducted at the El Paso, Texas, headquarters office.②

OPINION OF FINANCIAL STATEMENTS

The accompanying statements of assets and liabilities (schedule 1), results from power operations (schedule 2), and nonreimbursable operations (schedule 3) were prepared from records maintained by the United States Section. The financial statements in this report differ from those prepared by the United States Section. To present more accurate and meaningful statements, reclassifications and adjustments have been made to various account balances. The United States Section has concurred in these revisions. The principal reclassifications are as follows:

1. Operation and maintenance expenses of joint features distributed to power and depreciation on Falc6n Dam plant in service and on joint features applicable to power for fiscal year 1956, recorded in fiscal year 1957 as prior year charges, were reclassified as expenses for fiscal year 1956.
2. Allotments of National Industrial Recovery Administration and Public Works Administration funds recorded in the net congressional appropriation account have been reclassified and shown separately.
3. Investigation costs for projects on which construction had not started that were recorded as construction work in progress have been reclassified as preliminary survey and investigation costs.
4. Unobligated balances in 1-year appropriation accounts required to be withdrawn pursuant to the act of July 25, 1956 (31 U.S.C. 701), recorded as unexpended funds in accounts with the United States Treasury, were reclassified as a reduction of appropriations by the Congress.

After the close of fiscal year 1957, adjustments based on our reclassifications, except for items 1 and 2, were made by the Section on their records for fiscal year 1958.

We are unable to state, however, that the accompanying financial statements present fairly the financial position of the United States Section at June 30, 1956 and 1957, and the results of its operations for the years then ended, because the allocation to project purposes of construction costs has not been finalized and the accounts do not include the proper amounts for depreciation and interest.

FINANCIAL STATEMENTS

DEPARTMENT OF STATE

UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

STATEMENT OF ASSETS AND LIABILITIES--JUNE 30, 1957 AND 1956

A S S E T S

PLANT, PROPERTY, AND EQUIPMENT:
Plant in service (note 1)
Construction work in progress:

Falcón Dam
All other
Total

Less accumulated depreciation (note 1)
Total plant, property, and equipment

CURRENT ASSETS:

Unexpended funds in accounts with U.S. Treasury (note 2)
Accounts receivable
Accrued power revenues
Materials and supplies
Prepayments and advances
Total current assets

DEFERRED CHARGES:

Preliminary survey and investigation costs (note 3)
Other deferred charges
Total deferred charges

Total assets

1957 June 30 1956

\$58,449,817 \$22,734,232
34,956,908
852,214 188,017
59,302,031 57,879,157
1,242,577 985,834
58,059,454 56,893,323
4,367,909 5,232,482
33,257 35,123
9,292 15,510
147,291 160,602
128
4,557,749 5,443,845
2,579,590 2,470,436
72,297 4,646
2,651,887 2,475,082

L I A B I L I T I E S

1957 June 30 1956

INVESTMENT OF U.S. GOVERNMENT:
Appropriations by the Congress, net
Allotments of National Industrial Recovery Administration (\$4,733,000) and Public Works Administration (\$1,101,088) funds

\$83,087,861 \$81,168,141
5,834,088 5,834,088
88,921,949 87,002,229

Less: Payments to U.S. Treasury
Transfers of property or cost, net (note 5)
Total expenses of nonreimbursable operations (schedule 3)

592,721 519,558
957,865 9,910
22,330,401 22,105,329
23,880,987 22,634,797
65,040,962 64,367,432

Excess of costs over revenues from power operations, exclusive of interest on investment allocable to power (schedule 2)

229,193 3,503
64,811,769 64,363,929

CURRENT LIABILITIES:

Accounts payable
Liability for deposit funds
Total current liabilities

100,723 131,978
46,525 60,787
147,248 192,765

DEFERRED CREDITS

CONTRIBUTIONS IN AID OF CONSTRUCTION

97,167 42,650
212,906 212,906

Total liabilities and investment of U.S. Government (note 4)

\$65,269,090 \$64,812,250

The accompanying explanatory notes and comments to the financial statements on pages 51 through 55 are an integral part of this schedule.

DEPARTMENT OF STATE
UNITED STATES SECTION
INTERNATIONAL BOUNDARY AND WATER COMMISSION
UNITED STATES AND MEXICO

STATEMENT OF RESULTS FROM POWER OPERATIONS
FOR THE FISCAL YEARS ENDED JUNE 30, 1957 AND 1956

	1957		1956	
	Kilowatt hours	Rate per kwh (mills)	Kilowatt hours	Rate per kwh (mills)
OPERATING REVENUES:				
Sales of electric energy to Central Power and Light Company	23,181,400	2.03	73,855,500	2.70
		\$ 47,138		\$199,410
OPERATING EXPENSES:				
Operation expenses:				
Supervision and engineering		\$ 6,400		\$ 6,389
Hydraulic expenses		11,077		10,100
Electric expenses		33,027		31,539
Miscellaneous expenses		80		1,225
		50,584		49,253
Maintenance expenses:				
Supervision and engineering		6,433		6,507
Structures and improvements		3,262		2,835
Electric plant		23,082		22,062
Miscellaneous plant		1,684		866
		34,461		32,270
Total operation and maintenance expenses		85,045		81,523
Operation and maintenance expenses of multiple-purpose facilities distributed to power		31,635		31,406
PROVISION FOR DEPRECIATION:				
Power facilities		139,196		138,686
Joint multiple-purpose facilities distributed to power		16,952		16,459
Total operating expenses		272,828		268,074
NET LOSS FOR THE FISCAL YEAR FROM POWER OPERATIONS EXCLUSIVE OF INTEREST ON INVESTMENT ALLOCABLE TO POWER		225,690		68,664
NET INCOME (-LOSS) FROM PRIOR YEARS' OPERATIONS		-3,503		65,161
CUMULATIVE EXCESS OF COSTS OVER REVENUES FROM POWER OPERATIONS, EXCLU- SIVE OF INTEREST ON INVESTMENT ALLOCABLE TO POWER (to schedule 1)		\$229,193		\$ 3,503

The accompanying explanatory notes and comments to the financial statements on pages 51 through 55 are an integral part of this schedule.

DEPARTMENT OF STATEUNITED STATES SECTIONINTERNATIONAL BOUNDARY AND WATER COMMISSIONUNITED STATES AND MEXICOSTATEMENT OF EXPENSES OF NONREIMBURSABLE OPERATIONSFOR THE FISCAL YEARS ENDED JUNE 30, 1957 AND 1956

	<u>Fiscal year</u>	
	<u>1957</u>	<u>1956</u>
Operating expenses:		
El Paso Projects--canalization and rectification	\$ 491,372	\$ 417,320
Lower Rio Grande--flood control and bank protection	374,869	302,324
International water control and hydrographic studies	248,770	220,507
Falcón Dam--multiple-purpose plant	<u>85,531</u>	<u>89,962</u>
Total operating expenses, ex- clusive of depreciation	1,200,542	1,030,113
General office engineering expenses	116,628	83,766
General administrative expenses	259,905	250,197
Emergency flood protection	1,291	284
Depreciation on plant and facilities	208,460	199,847
Miscellaneous collections	<u>-11,448</u>	<u>-17,100</u>
Expenses of nonreimbursable operations for the fiscal year (net)	1,775,378	1,547,107
Total expenses of nonreimbursable op- erations at beginning of fiscal year	<u>22,105,329</u>	<u>20,427,766</u>
Net adjustments to prior years' expenses of nonreimbursable operations (note 5)	<u>-1,550,306</u>	<u>130,456</u>
Total expenses of nonreim- bursable operations at end of fiscal year	<u>\$22,330,401</u>	<u>\$22,105,329</u>

The accompanying explanatory notes and comments to the financial statements on pages 51 through 55 are an integral part of this schedule.

NOTES TO FINANCIAL STATEMENTS

1. Plant in service

The gross investment in plant in service at June 30, 1957 and 1956, consisted of:

	June 30	
	1957	1956
Multiple-purpose plant	\$27,700,118	\$ 204,243
Flood control plant	10,798,622	10,700,034
Rectification and canalization improvements	10,265,852	8,910,466
Power	6,648,177	12,973
Sanitation and water supply plant	778,809	778,809
Western land boundary fence	765,789	765,789
Bank protection improvements	240,088	240,088
Other plants and improvements	1,252,362	1,121,830
Total	\$58,449,817	\$22,734,232

The United States Section at June 30, 1957, was in the process of inventorying plant in service and analyzing project construction costs to establish firm plant costs in its accounts. Multiple-purpose, rectification and canalization improvement, and power accounts have been completed and unit costs established. Amounts shown in the preceding tabulation are subject to adjustment at the completion of the plant in service inventory and project construction cost analysis. Provision for depreciation recorded in the accounts as of June 30, 1957, applies to the following plant in service accounts:

Multiple-purpose plant	\$ 603,085
Power	346,672
Rectification and canalization improvements (note a)	200,849
Flood control (note a)	71,212
Other plants and improvements (note a)	20,759
Total	\$1,242,577

^aRepresents depreciation on vehicles and equipment only.

Interest during construction on the Federal investment in power has not been recorded in the Section's accounts.

2. Unexpended funds in accounts with United States Treasury

Unexpended funds in accounts with the United States Treasury and with disbursing officers at June 30, 1957, are classified as follows:

	Cash balances	Available to U.S. Section for			Not available
		Payments of liabilities	Liquidation of obligations	Obligation	
Salaries and expenses 1971069	\$ 29,775	\$ 23,719	\$ 6,056	\$ -	\$ -
Operation and Maintenance:					
1961084	192	192	-	-	-
1971084	68,124	47,027	21,097	-	-
Rio Grande emergency flood protection					
19x1067	114,208	-	-	114,208	-
Construction 19x1067	4,109,085	29,154	118,432	1,661,499	2,300,000 ^a
Special deposits for payment of specific and miscellaneous liabilities (note b) and petty cash funds of \$300	46,525	46,525	-	-	-
Total	\$4,367,909	\$146,617	\$145,585	\$1,775,707	\$2,300,000

^aReserved by the Bureau of the Budget.

^bSpecial deposits for payment of specific and miscellaneous liabilities consist principally of taxes withheld from salaries of employees.

3. Preliminary survey and investigation costs

Expenditures by the United States Section for examinations, surveys, and studies made in pursuance of applicable treaties and agreements for the development of specific projects, formulation of plans, and preparation of designs and similar activities prior to starting construction have been incurred as of June 30, 1957 and 1956, for the following projects:

Project	June 30	
	1957	1956
Rio Grande dams--upper	\$1,569,772	\$1,510,379
Lower Colorado River flood control	641,158	626,364
Tijuana River development	120,617	116,732
Santa Cruz River development	109,453	97,114
Sanitation	27,838	25,628
Anzalduas Dam	87,503	74,586
Other	23,249	19,633
Total	\$2,579,590	\$2,470,436

These expenditures have been made from appropriations for salaries and expenses and for construction.

With the beginning of construction of a project, part of a project, or extension of a project, the applicable investigation costs should be transferred to, and become a part of, the total cost of the project.

4. Unsettled claim of Falcón Dam Constructors

The construction of the Falcón Dam and power plant was accomplished jointly under an allocation of work items to each country, with all work allocated for performance by the United States covered by a listing designated as schedule No. 1, and all work allocated for performance by Mexico included on a listing designated as schedule No. 2. The contract for the performance of work on schedule No. 1 was awarded by the United States Section to a firm known as the Falcón Dam Constructors, and the contract for the performance of the work on schedule No. 2 was awarded by the Mexican Section to a firm called Constructora Intercontinental S.A.

The Falcón Dam Constructors were paid \$9,464,321 for the construction of the United States portion of the Falcón Dam and power plant, under contract IBM-4373, dated October 31, 1950. A release for all claims against the United States Government arising under and by virtue of the contract, except for those items included in the petition filed by the Falcón Dam Constructors with the United States Court of Claims, was executed December 15, 1954.

The Falcón Dam Constructors filed a petition in the United States Court of Claims February 23, 1955, against the United States, alleging increased construction costs due to the failure of the

United States Government to furnish timely drawings, materials, and equipment in conformity with contract provisions. In its petition, the Falcón Dam Constructors contended that there is a unified contractual obligation on the part of the Commission with respect to schedules Nos. 1 and 2 and that the United States and Mexico are jointly and severally obligated for the timely performance of work under both schedules. The United States Section informed us that the claim against the United States alleges increased costs of \$1,101,411 on schedule No. 1 and \$1,054,750 on schedule No. 2, totaling \$2,156,161.

The defense for the United States Government in the case of Falcón Dam Constructors, et al., vs. The United States, Court of Claims No. 72-55, is being carried out by the Department of Justice. In August 1955 the United States filed its answer to the Falcón Dam Constructors' petition. In 1956 the United States Court of Claims (136 C. Cls. 358) dismissed the petition relating to claims under schedule 2. At the completion of our audit, a date for hearing under schedule 1 before the Court of Claims had not been set.

5. Net adjustments to prior years' expenses of nonreimbursable operations

The net adjustments to prior years' operating results include the following amounts for fiscal year 1957:

	Fiscal year <u>1957</u>	Fiscal year <u>1956</u>
Transfer of costs to property accounts due to analysis and survey of plant in service	-\$1,271,388	\$ -
Transfers of property or cost (note a)	-930,179	-
Preliminary surveys and testing for Falcón Dam Project	574,053	-
Depreciation for fiscal year 1955 and prior years on plant in service	-	98,971
Other direct charges (net)	<u>77,208</u>	<u>31,485</u>
Net adjustments	<u>-\$1,550,306</u>	<u>\$130,456</u>

^aRepresents works constructed by the United States in Mexico and transferred in the Section's accounts as a cost to Mexico. The works were constructed by the United States Section under authority of the treaty of February 1, 1933 (48 Stat. 1621), which authorized the United States Section to construct, jointly with Mexico, works to relieve the towns and agricultural lands located within the El Paso-Juarez Valley from flood dangers and to secure at the same time stabilization of the international boundary between the United States and Mexico. The amount transferred as a cost to Mexico comprises one half the cost of the flood channel, one half the cost of grade control structures and bridges crossing the channel, and the total cost of the levees constructed by the United States entirely within Mexico. On the basis of benefits derived, the cost of works was agreed to be shared 88 percent by the United States and 12 percent by Mexico.

APPENDIXES

HISTORY AND ORGANIZATION OF THE UNITED STATES SECTION

CREATION AND JURISDICTION OF THE COMMISSION

The International Boundary and Water Commission, United States and Mexico, was created under the terms of the treaty of March 1, 1889 (26 Stat. 1512), between the United States and Mexico, which provided for the establishment of an International Boundary Commission to examine and decide:

"All differences or questions that may arise on that portion of the frontier between the United States of America and the United States of Mexico where the Rio Grande and the Colorado rivers form the boundary line, whether such differences or questions grow out of alterations or changes in the (river) bed*** or of works that may be constructed ***or of any other cause affecting the boundary line***."

Article 2 of the Water Treaty of February 3, 1944 (59 Stat. 1219), provided that:

"The International Boundary Commission established pursuant to the provisions of the Convention between the United States and Mexico signed in Washington March 1, 1889 *** shall hereafter be known as the International Boundary and Water Commission, United States and Mexico ***.

* * * * *

"The Commission shall in all respects have the status of an international body and shall consist of a United States Section and a Mexican Section.*** Wherever there are provisions in this Treaty for joint action or joint agreement by the two Governments, or for the furnishing of reports, studies or plans to the two Governments, or similar provisions, it shall be understood that the particular matter in question shall be handled by or through the Department of State of the United States and the Ministry of Foreign Relations of Mexico."

Before the creation of a permanent Commission, as provided by the treaty of March 1, 1889, special commissions had been appointed by each Government, in accordance with treaty provisions, to:

1. Designate the boundary line and establish landmarks showing the limits of both republics as specified in the Treaty of Peace ending the war between the United States and Mexico (treaty of February 2, 1848, 9 Stat. 922).
2. Survey and mark the portion of the boundary as redefined by the treaty of December 30, 1853 (10 Stat. 1031).

3. Make a reconnaissance of the boundary line between the Pacific Ocean and the Rio Grande and to rebuild or replace certain former monuments and to place new monuments (treaty of July 29, 1882, 22 Stat. 986).

Since its creation the Commission has been empowered by treaty and national law to conduct a program of cooperative action between the United States and Mexico for the solution of joint engineering problems, including equitable division between the two countries of the waters of the Rio Grande, the Colorado, and the Tijuana Rivers, conservation and storage of these waters, flood control, sanitation hazards, stabilization of the river boundary, and development of hydroelectric generating plants.

ORGANIZATION AND MANAGEMENT

The International Boundary and Water Commission, United States and Mexico, consists of the United States Section and the Mexican Section. The United States Section is headed by a Commissioner who is appointed by, and serves at the pleasure of, the President. The United States Commissioner is responsible to the Secretary of State in matters of policy. An Engineer Commissioner, appointed by the President of Mexico, heads the Mexican Section and is under the supervision of the Ministry of Foreign Relations in the Mexican Government.

Since the creation of the Commission by the treaty of March 1, 1889, only five men have served as United States Commissioners. These men and their tenures of office, as Commissioners, have been:

Colonel Anson Mills	October 20, 1893-July	1, 1914
Lucius D. Hill	May 2, 1917-June	30, 1921
George Curry	August 8, 1922-July	1, 1927
L. M. Lawson	July 1, 1927-February	13, 1954
Colonel L. H. Hewitt	June 17, 1954-	

From the date of resignation of Colonel Mills to the appointment of Mr. Hill, no American served as Commissioner because of the revolutionary disturbances in Mexico at that time. During the gaps between the tenures of the other Commissioners, the affairs of the Commission have been directed by an Engineer or Secretary in charge.

At June 30, 1957, the United States Section consisted of a headquarters office in El Paso, Texas, and field offices located along the United States-Mexican border. The location and the general purpose of these field offices at June 30, 1957, follow:

Field and subfield officesGeneral purpose

El Paso, Texas
 Fabens, Texas
 Fort Hancock, Texas
 Hatch, New Mexico
 Las Cruces, New Mexico

Operation and maintenance of American Dam and International Dam, El Paso, Texas. Rio Grande rectification and canalization projects from Caballo Dam, New Mexico, to Fort Quitman, Texas.

Falcón Village, Texas

Operation and maintenance of Falcón Dam and power plant.

Harlingen, Texas
 Mercedes, Texas
 McAllen, Texas

Operation and maintenance of the Lower Rio Grande Flood Control Project from Penitas, Texas, to the Gulf of Mexico.

Laredo, Texas

Real estate activities relating to Falcón Dam reservoir lands.

Laredo, Texas
 Alpine, Texas
 Del Rio, Texas

Water control activities involving operation and maintenance of stream-gaging stations and related activities. Liaison with Special Water Master for lower Rio Grande Valley.

McAllen, Texas

Construction of Anzalduas Dam. Water control activities involving operation and maintenance of stream-gaging stations under the direction of the Laredo office.

San Diego, California

Field engineering surveys and office investigations from east line of San Diego County to Pacific Ocean. Investigations on Colorado River, Tijuana River, and Tijuana Valley sanitation projects.

Yuma, Arizona
 Nogales, Arizona

Water control activities on Colorado River including stream-gaging operations. Supervision jointly with the Mexican Section of operation and maintenance of Morelos Dam. Supervision of Douglas and Nogales sanitation projects. Surveys on lower Colorado and Santa Cruz Rivers.

Headquarters of the Mexican Section is at Ciudad Juarez, Chihuahua, across the Rio Grande from El Paso, and several field offices are maintained by the Mexican Section.

The number of employees attached to the headquarters and field offices of the United States Section at June 30, 1957 and 1956, are as follows:

<u>Location</u>	Number of employees at June 30	
	<u>1957</u>	<u>1956</u>
Headquarters, El Paso, Texas	70	65
Field and subfield offices	<u>254</u>	<u>297</u>
Totals	<u>324</u>	<u>362</u>

By ruling of the Civil Service Commission,¹ employees of the United States Section have been exempted from the provisions of the Classification Act of 1949. The Civil Service Commission's ruling was based on section 202 (2) of the act which states that the act shall not apply to "positions in or under the Department of State which are (A) connected with the representation of the United States to international organizations."

Headquarters organization at El Paso, Texas

The headquarters organization consists of the office of the United States Commissioner and administrative (including the internal audit section), engineering, and legal and real estate divisions.

The United States Commissioner is responsible for carrying out the provisions of treaties and national laws, as they relate to the international boundary between the United States and Mexico, in accordance with policies prescribed by the Secretary of State. Each of the headquarters divisions assists the United States Commissioner in carrying out his responsibilities by advising him on matters relating to finance, engineering, and law, as they relate to the activities of the Commission, and by giving technical guidance and general supervision to operations conducted by the field offices. The number of employees in each major organizational unit of the headquarters office of the United States Section at June 30, 1957 and 1956, is summarized as follows:

¹Letter dated February 2, 1950, addressed to the Commissioner, International Boundary and Water Commission, signed by the Chief Personnel Classification Division, United States Civil Service Commission.

	<u>Headquarters office</u>	
	Number of	
	<u>employees at June 30</u>	
	<u>1957</u>	<u>1956</u>
Office of the Commissioner	2	2
Administrative division:		
Office of the Chief	2	2
Accounting	10	10
Budget and audit	3	2
Procurement and property	6	7
Personnel	4	3
Other services	9	8
Engineering division:		
Office of the Chief	3	3
Planning and engineering	17	16
Operations	2	1
Water control	8	8
Legal and real estate division:		
Office of the Counsel	2	3
Real estate section	<u>2</u>	<u>-</u>
Total	<u>70</u>	<u>65</u>

Field organization

The organization of the field offices is similar to that of the headquarters office. The project or resident engineers in charge of the field offices, as well as the employees in the field offices performing functions relating to administration, engineering, and legal and real estate matters, are directly responsible to, and receive technical guidance and general supervision from, the respective divisions of the headquarters office. The number of employees in each major organizational unit of the field offices of the United States Section at June 30, 1957 and 1956, is summarized as follows:

	<u>Field offices</u>	
	Number of	
	<u>employees at June 30</u>	
	<u>1957</u>	<u>1956</u>
Office of the project or resident engineer	8	9
Administrative:		
General administration	14	17
Guards	6	8
Warehouse and yards	7	-
Engineering:		
Planning and engineering	32	50
Operations	157	180
Water control	27	28
Legal and real estate	<u>3</u>	<u>5</u>
	<u>254</u>	<u>297</u>

UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION
REGION 5

Schedule R5-S2

Falcón Project, Texas

INTERIM SCHEDULE OF RATES FOR SALE OF PEAKING CAPACITY

Effective:

December 28, 1956

(Confirmed and approved by Federal Power Commission for period of five years only)

Available:

At the 138-kv Switchyard of Falcón powerplant.

Applicable:

To customers which agree to utilize with peaking capacity, all energy which can be delivered therewith which is not in excess of the quantity represented by the customer's daily load factor applied to the billing demand for peaking capacity.

Character and Conditions of Service:

Alternating current, sixty cycles, three-phase delivered and metered at the 138-kv bus of the Falcón Powerplant.

Rate:

ANNUAL PEAKING CAPACITY CHARGE: Fifteen dollars (\$15.00) per kilowatt per year of billing demand payable in October of each year.

MONTHLY ENERGY CHARGE: First 400 hours times the billing demand, @ 1.75 mills/kwhr. Balance of energy @ 1.0 mill/kwhr.

Definitions:

Annual Peaking Capacity:

That capacity to be available continuously (exclusive of Saturdays and Sundays), which is scheduled in accordance with the billing demand. The United States may restrict deliveries associated with such capacity so that daily deliveries of energy are equal to the billing demand times 6 hours' use, except that energy

deliveries may be further restricted to a quantity equal to 20 hours' use for any 5-day operating period.

Maximum Contract Rate of Delivery - Is the maximum rate of delivery acceptable to customers and set forth in the contract.

Minimum Contract Rate of Delivery - Is the minimum rate of delivery stipulated in the contract and is the customer's pro rata share of the power and energy generated at a minimum operating head from the United States powerplant as determined by the United States Section, International Boundary and Water Commission.

Billing Demand:

Prior to January 1 of each year the United States will declare the kilowatts of peaking capacity available for the following year and such initial declaration, unless revised by later adjustments for inadequate capacity as herein provided in the adjustment section of this rate schedule, shall constitute the billing demand for said following year. Such initial declaration shall not exceed the maximum contract rate of delivery for peaking capacity and shall not be less than the minimum contract rate of delivery.

Adjustments:

For Inadequate Capacity:

If peaking capacity is curtailed by the United States below the amount required by the customer or below the billing demand as initially established, whichever is the lesser, the billing demand for that calendar year shall be the minimum contract rate of delivery. If peaking capacity is curtailed by the United States below the minimum contract rate of delivery during the off-season months of January, February, March, April, May, October, November and December, then the billing demand shall be considered as fifty percent of the minimum contract rate of delivery. If peaking capacity is curtailed by the United States below the minimum contract rate of delivery during the peak season months of June, July, August and September, the billing demand shall be zero. Appropriate credit shall be allowed the customer for any overpayments.

Curtailement of peaking capacity shall be considered as having occurred when there has been interruption to service in excess of thirty (30) minutes duration which during the calendar year occurs:

1. On five successive operating days (exclusive of Saturdays and Sundays) all of which are in the peak season; or

2. On a total of 15 operating days (exclusive of Saturdays and Sundays) and said curtailment shall be considered as occurring in the season in which the majority of said operating days fall.