

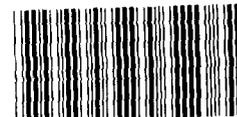
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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

**Review Of The United States Synthetic
Fuels Corporation's Financial Statements
For The Fiscal Year Ended
September 30, 1981**



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206331

To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes the results of our review of the United States Synthetic Fuels Corporation's (Corporation's) financial statements for the year ended September 30, 1981. The Corporation was established to provide financial assistance to further the development of domestic synthetic fuels. We are required by 42 U.S.C. 8777 to report to the Congress on the audit of the Corporation not less than every 3 years. Also, this law requires the Corporation to retain a nationally recognized public accounting firm to perform an annual audit of its accounts. To avoid unnecessary duplication and expense, we discharge our responsibilities by relying on the work of the Corporation's auditors.

We reviewed the workpapers and audit report of Peat, Marwick, Mitchell & Co. (PMM&Co), the Corporation's independent certified public accountants, to determine the extent to which we could rely on the Corporation's financial statements. We performed such tests of PMM&Co's workpapers and audit report as we considered necessary to ensure that:

- The Corporation's financial statements were prepared in accordance with generally accepted accounting principles.
- PMM&Co's audit was made in accordance with generally accepted government auditing standards.
- PMM&Co had established the necessary policies and procedures to comply with other applicable professional standards.

Our review was conducted at the Corporation's and PMM&Co's offices in Washington, D.C.

During our review of PMM&Co's workpapers and audit report, nothing came to our attention that would indicate that PMM&Co's opinion on the Corporation's 1981 financial statements was inappropriate. We therefore concur with, and transmit to the Congress, PMM&Co's opinion and the Corporation's 1981 financial statements (app. I).

We are sending copies of this report to the Director of the Office of Management and Budget, the Chairman of the House Judiciary Committee, and the Board of Directors of the United States Synthetic Fuels Corporation.

Charles A. Bowsher

Comptroller General
of the United States



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

1990 K Street, N.W.
Washington, D.C. 20006

The Board of Directors
United States Synthetic Fuels Corporation:

We have examined the statement of financial condition of United States Synthetic Fuels Corporation as of September 30, 1981 and the related statements of operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of United States Synthetic Fuels Corporation as of September 30, 1981 and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.

Peat, Marwick, Mitchell & Co.

November 18, 1981



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

1990 K Street, N.W.
Washington, D.C. 20006

The Board of Directors
United States Synthetic Fuels Corporation:

We have examined the financial statements of United States Synthetic Fuels Corporation for the year ended September 30, 1981, and have issued our report thereon dated November 18, 1981. As part of our examination, we made a study and evaluation of the system of internal accounting control of the Corporation to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- (1) Capital note
- (2) Administrative expenses
 - (a) Payroll expense
 - (b) Contractual services
 - (c) Other administrative expenses

Our study included all of the control categories listed above. We did not evaluate the internal accounting controls over the capital note category because we considered it more efficient to expand substantive tests and to place no reliance on the controls. Further, we did not evaluate the internal accounting controls over contractual services or other administrative expenses, because internal accounting controls changed throughout the fiscal year as the accounting system was developed. Accordingly, no consistent system of internal accounting controls for contractual services or other administrative expenses was in effect throughout the year. We did evaluate the internal accounting controls in the payroll expense category.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls identified above.

The management of United States Synthetic Fuels Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfil-

ling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of United States Synthetic Fuels Corporation taken as a whole or on any of the categories of internal accounting controls identified in the first paragraph. However, our study and evaluation disclosed no conditions that we believe to be a material weakness.

This report is intended solely for the use of management of United States Synthetic Fuels Corporation, the General Accounting Office and other associated Federal organizations and should not be used for any other purpose.

Pest, Marwick, Mitchell & Co.

November 18, 1981



Peat, Marwick, Mitchell & Co.

Certified Public Accountants

1990 K Street, N.W.
Washington, D.C. 20006

The Board of Directors
United States Synthetic Fuels Corporation:

We have examined the financial statements of the United States Synthetic Fuels Corporation (Corporation) as of and for the year ended September 30, 1981, and have issued our report thereon dated November 18, 1981. Our examination was made in accordance with generally accepted auditing standards and the provisions of "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" (Standards), promulgated by the Comptroller General, which pertain to financial and compliance audits and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our examination, we have reviewed the provisions of the Energy Security Act (PL 96-294) to determine the material compliance requirements which may have a financial impact.

In our opinion, for the tested operations and records, the United States Synthetic Fuels Corporation complied with the material compliance requirements of the Energy Security Act (PL 96-294) referred to above. Further, based upon our examination and the procedures referred to above, for those operations and records not tested, nothing came to our attention to indicate that the Corporation had not complied with the compliance requirements referred to above.

Peat, Marwick, Mitchell & Co.

November 18, 1981

UNITED STATES SYNTHETIC FUELS CORPORATION

Statement of Financial Condition

September 30, 1981

Assets

Current assets:

Petty cash		\$	650
Prepaid expenses			33,251
Deposits			<u>37,371</u>

Total current assets			71,272
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Equipment, at cost	\$	95,756	
Less accumulated depreciation		<u>(9,961)</u>	85,795
Leasehold improvements		25,177	
Less accumulated amortization		<u>(8,392)</u>	<u>16,785</u>
	\$		<u>173,852</u>

Liabilities and Equity in Net Assets

Current liabilities

Outstanding checks not presented for payment (note 2)			171,749
Accounts payable			66,944
Accrued expenses			378,535
Withheld taxes			16,447
Accrued annual leave			<u>70,727</u>

Total current liabilities			704,402
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Equity in net assets:

Capital note (note 1)		6,170,261	
Accumulated administrative expenses		<u>(6,700,811)</u>	(530,550)

Commitments and contingencies (note 4)

	\$	<u>173,852</u>
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See accompanying notes to financial statements.

UNITED STATES SYNTHETIC FUELS CORPORATION

Statement of Operations

For the year ended September 30, 1981

Administrative expenses (note 3):	
Personnel costs	\$ 3,053,312
Contractual services	1,420,053
Office occupancy	950,149
Administrative services	528,604
Inspector general	318,204
Travel	163,933
Employee relocation and recruitment	244,875
Depreciation and amortization expense	18,353
Miscellaneous	<u>3,328</u>
Total administrative expenses	\$ <u>6,700,811</u>

See accompanying notes to financial statements.

UNITED STATES SYNTHETIC FUELS CORPORATION
Statement of Changes in Financial Position
For the year ended September 30, 1981

Source of working capital - capital note issued	<u>\$ 6,170,261</u>
Uses of working capital:	
Total administrative expenses	6,700,811
Less depreciation expense which does not use working capital	<u>18,353</u>
Working capital used by operations	<u>6,682,458</u>
Purchase of equipment	95,756
Purchase of leasehold improvements	<u>25,177</u>
	<u>120,933</u>
Decrease in working capital	<u>\$ (633,130)</u>
Changes in components of working capital:	
Increase (decrease) in current assets:	
Petty cash	650
Prepaid expenses	33,251
Deposits	<u>37,371</u>
	<u>71,272</u>
Increase (decrease) in current liabilities:	
Outstanding checks not presented for payment	171,749
Accounts payable	66,944
Accrued expenses	378,535
Withheld taxes	16,447
Accrued annual leave	<u>70,727</u>
	<u>704,402</u>
Decrease in working capital	<u>\$ (633,130)</u>

See accompanying notes to financial statements.

UNITED STATES SYNTHETIC FUELS CORPORATION

Notes to Financial Statements

September 30, 1981

(1) The Corporation

The United States Synthetic Fuels Corporation (Corporation) was created on June 30, 1980 by the Energy Security Act (P.L. 96-294) as a Federal entity of limited duration for the purpose of providing financial assistance for the development of commercial synthetic fuel projects. The Corporation began operations on October 8, 1980.

The Supplemental Appropriations Act of 1980 (P.L. 96-304), provides that \$6 billion is available immediately in the Energy Security Reserve Fund in the United States Treasury for purposes of Title I of the Energy Security Act.

The Corporation is subject to annual expenditure limits of \$35,000,000 for administrative expenses including \$2,000,000 for inspector general operations. For each fiscal year commencing after September 30, 1980, these limitations shall be increased as of October 1 each year by an amount equal to the percentage increase in the Gross National Product implicit price deflator as published by the Department of Commerce. The Corporation is authorized to expend \$10,000,000 per year for generic studies and specific reviews of individual proposals.

The Corporation draws funds by issuing a noninterest-bearing note payable to the United States Treasury, due September 30, 1997 or upon termination of the Corporation. During the year ended September 30, 1981, the Corporation drew \$5,872,782 for administrative expenses and \$297,479 for inspector general operations. These amounts have been classified as a capital note in the accompanying financial statements. The obligations of the Corporation under this note will be transferred to the United States Treasury upon transfer of the Corporation's powers, duties, rights and obligations to the United States Treasury pursuant to Section 193 (a) of the Energy Security Act or pursuant to any other provisions of applicable law.

(2) Summary of Significant Accounting Policies(a) Funding

Pursuant to a Memorandum of Understanding between the Corporation and the U.S. Treasury effective January 14, 1981 and a note issued by the Corporation to the Secretary of the U.S. Treasury dated January 23, 1981, the Treasury Department Fiscal Service has established and issued to the National Savings and Trust Company a letter of credit in the amount of \$50,000,000. Drawdowns against the letter of credit

(Continued)

UNITED STATES SYNTHETIC FUELS CORPORATION

Notes to Financial Statements

are made by the bank as required to fund transactions on a daily basis, obviating the need for the Corporation to maintain a cash balance and thus assuring that budget outlays of the Treasury Department are held to a minimum at any one time. The amount available under the letter of credit was \$44,550,467 at September 30, 1981.

Total administrative expenses exceed actual draws made on the capital note because expenditures have been recognized on the accrual method of accounting.

(b) Equipment and Leasehold Improvements

Equipment purchases and leasehold improvements are recorded at cost. Depreciation is provided on a straight-line basis over the useful life of equipment, which is estimated at five to ten years. Amortization of leasehold improvements is provided over the life of the lease.

(c) Income Taxes

The Corporation is exempt from Federal income taxes under Section 155 of the Energy Security Act.

(3) Expense Classification

The financial statements reflect only administrative expenses because, as of September 30, 1981, the Corporation had not entered into any financial assistance agreements for synthetic fuels projects. Inspector general expenses include personnel costs and an allocation of certain other administrative expenses.

(4) Lease Commitments for Office Space

As of September 30, 1981, the future rental payments required under operating leases that initially had noncancelable lease terms in excess of one year are \$221,697 for fiscal year 1982.

Rent expense totalled \$590,400 in 1981.

On October 28, 1981, the Corporation entered into an agreement for office space which requires monthly rental payments of \$160,600 for fifty-eight months commencing July 1, 1982.

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