

11/93

BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Reviews Of The Audits Of The United States Synthetic Fuels Corporation's Financial Statements For The Years Ended September 30, 1983 And 1982

GAO reviewed the independent certified public accountants' audits of the United States Synthetic Fuels Corporation's financial statements for the years ended September 30, 1983 and 1982. GAO found nothing to indicate the opinion of the independent certified public accountants is inappropriate or cannot be relied on.

In the opinion of the Corporation's independent certified public accountants, the financial statements present fairly the Corporation's financial position as of September 30, 1983 and 1982, the results of its operations, and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



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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 presents the results of our reviews of Peat, Marwick, Mitchell & Co.'s audits of the statements of financial condition of the United States Synthetic Fuels Corporation as of September 30, 1983 and 1982, and the related statements of operations, equity in net assets, and changes in financial position for the years then ended. Our reviews were made under provisions of the Energy Security Act (42 U.S.C.8777(b)(2)), which authorizes us to audit the Corporation's accounts and directs us to report the results of our audit to the Congress at least once every three years.

Our reviews were conducted in accordance with generally accepted government auditing standards. To avoid unnecessary duplication and expense and make the most efficient use of our available resources, we relied on the work and reports of the Corporation's independent certified public accountants rather than conduct financial audits ourselves. To review the reasonableness of the auditors' work and determine the extent to which we could rely on it, we

- interviewed the Corporation's officials to obtain information about the Corporation's operations, including the maintenance of its financial records and the preparation of its financial statements;
- interviewed the auditors to identify the audit approach used and the methods used to control the quality of audit work;
- obtained information about the qualifications and independence of the auditors;
- reviewed the Corporation's financial statements and the auditors' reports for compliance with the reporting requirements of generally accepted accounting principles and generally accepted government auditing standards; and
- reviewed the auditors' workpapers to determine:
  - o the nature, timing, and extent of audit work performed;
  - o whether the audit quality control methods identified by the auditor were actually used;

- o whether there was a proper study and evaluation of the Corporation's internal controls; and
- o whether the auditors tested transactions for compliance with applicable laws and regulations.

We found that the audits were conducted in accordance with generally accepted government auditing standards.

In the opinion of Peat, Marwick, Mitchell & Co., the Corporation's financial statements present fairly its financial position as of September 30, 1983 and 1982, the results of its operations, and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. During our reviews, we found nothing to indicate Peat, Marwick, Mitchell & Co.'s opinion on the Corporation's 1983 and 1982 financial statements is inappropriate or that it cannot be relied on. The auditors' work did not disclose any material internal control weaknesses or noncompliance with laws and regulations. The opinion, statement on internal controls, statement on compliance with laws and regulations, and the financial statements are in appendix I.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Chairman of the House Judiciary Committee, and the Corporation's Board of Directors.



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 statements of financial condition of United States Synthetic Fuels Corporation as of September 30, 1983 and 1982 and the related statements of operations, equity in net assets and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and the financial and compliance elements of the "Standards for Audits of Governmental Organizations, Programs, Activities and Functions" issued by the U.S. Comptroller General in 1981 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 at September 30, 1983 and 1982 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Peat, Marwick, Mitchell & Co.*

November 11, 1983



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, 1983, and have issued our report thereon dated November 11, 1983. 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 and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions." For the purpose of this report, we have identified the internal accounting controls in the following significant categories:

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

Our study and evaluation included all of the control categories listed above except that 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.

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 control taken as a whole or on any of the categories of controls identified above.

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

*Paul Marwick, Mitchell & Co.*

November 11, 1983



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, 1983, and have issued our report thereon dated November 11, 1983. 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 11, 1983

## UNITED STATES SYNTHETIC FUELS CORPORATION

## Statements of Financial Condition

September 30, 1983 and 1982

<u>Assets</u>	<u>1983</u>	<u>1982</u>
Deposit to U.S. Treasury (note 6)	\$ 600,000	-
Cash in bank	6,999	10,362
Petty cash	1,250	1,168
Accounts receivable	12,295	3,774
Prepaid expenses	68,867	75,369
Employee expense advances	12,408	5,050
Deposits	7,300	6,525
Deferred charges (note 8)	614,251	27,096
Restricted cash (note 7)	525,723	525,723
Furniture and equipment, at cost, less accumulated depreciation of \$228,132 in 1983 and \$89,933 in 1982	529,972	576,604
Leasehold improvements, at cost, less accumulated amortization of \$142,302 in 1983 and \$61,712 in 1982	<u>318,389</u>	<u>342,230</u>
	<u>\$ 2,697,454</u>	<u>1,573,901</u>
<u>Liabilities and Equity in Net Assets</u>		
Liabilities:		
Outstanding checks not presented for payment (note 2)	346,428	62,723
Accounts payable	561,191	203,901
Accrued expenses (note 8)	1,208,496	802,139
Withheld taxes	100,649	93,634
Withheld savings plan contributions (note 5)	34,821	-
Withheld United Way contribution	554	-
Accrued pension liability (note 5)	44,703	464,732
Accrued savings plan liability (note 5)	17,767	-
Accrued annual leave	<u>371,855</u>	<u>203,356</u>
Total liabilities	<u>2,686,464</u>	<u>1,830,485</u>
Equity in net assets:		
Capital note (note 1)	33,199,575	17,632,893
Accumulated excess of expenses over revenue	<u>(33,188,585)</u>	<u>(17,889,477)</u>
	10,990	(256,584)
Commitments and contingencies (notes 4 and 9)		
	<u>\$ 2,697,454</u>	<u>1,573,901</u>

See accompanying notes to financial statements.

## UNITED STATES SYNTHETIC FUELS CORPORATION

## Statements of Operations

Years ended September 30, 1983 and 1982

	<u>1983</u>	<u>1982</u>
<b>Revenue:</b>		
Financial assistance fee (note 6)	\$ 600,000	-
Loan guarantee fee (note 7)	-	<u>525,723</u>
	<u>600,000</u>	<u>525,723</u>
<b>Administrative expenses (note 3):</b>		
Personnel costs	8,934,469	6,383,896
Contractual services	832,175	639,445
Office occupancy	2,458,442	1,867,468
Administrative services	982,171	1,110,535
Travel and relocation	906,205	630,506
Recruitment	83,854	263,525
Depreciation and amortization expense	222,597	133,292
Miscellaneous	<u>68,600</u>	<u>36,020</u>
	14,488,513	11,064,687
Inspector General	<u>598,349</u>	<u>443,647</u>
Total administrative expenses	15,086,862	11,508,334
Generic studies and specific reviews (note 3) - contractual services	<u>812,246</u>	<u>206,055</u>
Total expenses	<u>15,899,108</u>	<u>11,714,389</u>
Excess of expenses over revenue	\$ <u>(15,299,108)</u>	<u>(11,188,666)</u>

See accompanying notes to financial statements.

## UNITED STATES SYNTHETIC FUELS CORPORATION

## Statements of Equity in Net Assets

Years ended September 30, 1983 and 1982

	<u>Capital note</u>	<u>Accumulated excess of expenses over revenue</u>	<u>Total</u>
Balance, September 30, 1981	\$ 6,170,261	(6,700,811)	(530,550)
Draws on capital note	11,462,632	-	11,462,632
Excess of expenses over revenue	<u>-</u>	<u>(11,188,666)</u>	<u>(11,188,666)</u>
Balance, September 30, 1982	17,632,893	(17,889,477)	(256,584)
Draws on capital note	15,566,682	-	15,566,682
Excess of expenses over revenue	<u>-</u>	<u>(15,299,108)</u>	<u>(15,299,108)</u>
Balance, September 30, 1983	\$ <u>33,199,575</u>	<u>(33,188,585)</u>	<u>10,990</u>

See accompanying notes to financial statements.

UNITED STATES SYNTHETIC FUELS CORPORATION  
 Statements of Changes in Financial Position  
 Years ended September 30, 1983 and 1982

	<u>1983</u>	<u>1982</u>
Funds used:		
Excess of expenses over revenue	\$ 15,299,108	11,188,666
Add items not requiring funds:		
Depreciation and amortization	(230,313)	(133,292)
Gain on sale of equipment	<u>5,935</u>	<u>-</u>
Funds used in operations	15,074,730	11,055,374
Additions to furniture and equipment and leasehold improvements	165,032	949,546
Increase in:		
Deposit to Treasury	600,000	-
Cash in bank	-	10,362
Petty cash	82	518
Accounts receivable	8,521	3,774
Prepaid expenses	-	46,306
Employee expense advances	7,358	862
Restricted cash	-	525,723
Deposits	775	-
Deferred charges	587,155	27,096
Decrease in:		
Outstanding checks not presented for payment	-	109,026
Accrued pension liability	<u>420,029</u>	<u>-</u>
	<u>\$ 16,863,682</u>	<u>12,728,587</u>
Funds provided:		
Draws on capital note	15,566,682	11,462,632
Proceeds from disposal of equipment	11,127	-
Increase in:		
Outstanding checks not presented for payment	283,705	-
Accounts payable	357,290	136,957
Accrued expenses	406,357	423,604
Withheld taxes	7,015	77,187
Withheld savings plan contributions	34,821	-
Withheld United Way contribution	554	-
Accrued pension liability	-	464,732
Accrued savings plan liability	17,767	-
Accrued annual leave	168,499	132,629
Decrease in:		
Cash in bank	3,363	-
Prepaid expenses	6,502	-
Deposits	-	30,846
	<u>\$ 16,863,682</u>	<u>12,728,587</u>

See accompanying notes to financial statements.

## UNITED STATES SYNTHETIC FUELS CORPORATION

## Notes to Financial Statements

September 30, 1983 and 1982

(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.

On February 8, 1982, the President of the United States declared the Corporation "operational," an executive action required by law to permit the transfer of responsibility for two projects which had been approved and were being monitored by the Department of Energy, and the transfer of authority to obligate certain additional funds in the Energy Security Reserve.

Funds have been made available to the Corporation in the Energy Security Reserve Fund in the United States Treasury as follows:

Appropriations provided by the Supplemental Appropriations Act of 1980 (P.L. 96-304)	\$ 12.21 billion
Appropriations transferred from Department of Energy - uncommitted at time of transfer	2.69 billion
Appropriations transferred from Department of Energy - committed at time of transfer:	
For Union Oil Company of California Project (see note 9)	0.40 billion
For The Oil Shale Corporation Project (see note 7)	<u>1.23 billion</u>
Total	\$ <u>16.53</u> billion

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.

(Continued)

## UNITED STATES SYNTHETIC FUELS CORPORATION

## Notes to Financial Statements

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. For the fiscal years ended September 30, 1983 and 1982 the Corporation drew \$14,754,436 and \$11,256,577, respectively, for administrative expenses; and \$812,246 and \$206,055, respectively, for generic studies. Since inception, draws on the note totalled \$32,176,474 for administrative expenses and \$1,023,101 for generic studies. 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 laws.

(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, as amended and restated March 29, 1983, 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 NS&T Bank, N.A. a letter of credit in the amount of \$50,000,000. Drawdowns against the letter of credit are made by the bank upon presentation of Corporation checks 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 at September 30, 1983 and 1982 was \$16,350,815 and \$32,096,667, respectively.

(b) Furniture, Equipment and Leasehold Improvements

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

(c) Income Taxes

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

(Continued)

## UNITED STATES SYNTHETIC FUELS CORPORATION

## Notes to Financial Statements

(d) Reclassifications

Certain reclassifications of prior years' information have been made to conform with 1983 presentation.

(3) Expense Classification

The financial statements reflect administrative expenses, and generic studies and specific reviews. Inspector General expenses include all costs to operate the Office of the Inspector General.

(4) Commitments for Office Space

The Corporation leases its office space under a noncancelable operating lease which expires on April 30, 1987 with options to renew the lease for a total of eleven additional years. The lease requires future rental payments, excluding escalation provisions, as follows:

Fiscal year 1984	\$ 1,927,400
Fiscal year 1985	1,927,400
Fiscal year 1986	1,927,400
Fiscal year 1987	<u>1,124,317</u>
	\$ <u>6,906,517</u>

Rent expense totalled \$1,920,108 and \$1,207,622 for the years ended September 30, 1983 and 1982, respectively.

(5) Retirement and Savings Plans

All permanent employees of the Corporation are covered by the noncontributory, defined contribution United States Synthetic Fuels Corporation Retirement Plan. The plan was approved by the Board of Directors on June 17, 1982. Retirement expense totalled \$459,198 and \$464,732 for the years ended September 30, 1983 and 1982, respectively. The Corporation makes monthly contributions to the plan based on the amounts accrued for retirement expense. Retirement expense is calculated as a fixed percentage of employee regular compensation.

(Continued)

## UNITED STATES SYNTHETIC FUELS CORPORATION

## Notes to Financial Statements

The Board of Directors also approved the United States Synthetic Fuels Corporation Savings Plan on June 17, 1982. Participation in the plan is voluntary and all permanent employees are eligible to join. Employee contributions are limited to a maximum of 6% of regular compensation. The Corporation contributed amounts equal to 100% of participant contributions, based on individual participants' service prior to October 16, 1982 and thereafter equal to 50% of participant contributions. The Corporation's liability for contributions under the plan began October 16, 1982, and \$282,737 was recorded as savings plan expense for the year ended September 30, 1983.

(6) Deposit to Treasury

On July 28, 1983, a financial assistance fee of \$600,000 was deposited into the Corporation's account at the U.S. Treasury by the sponsors of the Cool Water Coal Gasification Program (note 9). Under the terms of the Energy Security Act, this fee may be applied against the administrative expenses of the Corporation.

(7) Restricted Cash

The restricted cash is a guarantee fee which was transferred from the Department of Energy to the Energy Security Reserve Fund in the U.S. Treasury. The fee transferred related to the loan guarantee for The Oil Shale Corporation's synthetic fuel project. This project was halted in May 1982, and the loan guarantee was terminated. The then outstanding loans were repaid by The Oil Shale Corporation in June 1982. The Corporation is currently examining the limitations on its authority to utilize the guarantee fee and the transferred obligational authority.

(Continued)

## UNITED STATES SYNTHETIC FUELS CORPORATION

## Notes to Financial Statements

(8) Cost Sharing Agreement

During the 1983 fiscal year, the Corporation entered into a cost-sharing agreement under Section 131(u) of the Energy Security Act with Peat Methanol Associates, North Carolina Synfuels Corporation, Transco Peat Methanol Company, Koppers Company, Inc. and Transco Energy Company, sponsors of the First Colony Project. The Corporation agreed to share in the cost of refining the design of the Project so as to improve the accuracy of the estimate of total Project costs upon which financial assistance will be based in the event of an award of such assistance. The maximum obligation of the Corporation under the agreement is \$820,750. The work is essentially complete and the estimated liability of the Corporation is not expected to exceed \$597,900, which amount is included in accrued expenses and in deferred charges at September 30, 1983. In the event that subsequent financial assistance in the form of a loan guarantee is awarded, this amount will be repaid to the Corporation from the related loan proceeds. If financial assistance is not awarded to the project, then the entire amount will be recognized as a current expense in the period a decision is made.

(9) Contingencies

At September 30, 1983 the Corporation was contingently liable in connection with financial assistance for two synthetic fuels projects as follows:

<u>Project</u>	<u>Form of financial assistance</u>	<u>Maximum contingent liability</u>
Union Oil Company of California	<u>Purchase and price differential</u> Subject to the terms of the July 29, 1981 agreement, the Corporation is committed to guarantee the price of up to 20 million barrels of refined aviation and diesel fuel. Aggregate price differential payments by the Corporation will not exceed the maximum contingent liability.	\$ 0.40 billion
Cool Water Coal Gasification Project	<u>Price guarantee</u> Subject to the terms of the July 28, 1983 agreement, the Corporation is committed to guarantee the price of up to 20 trillion BTUs of synthetic gas. Aggregate price guarantee payments by the Corporation will not exceed the maximum contingent liability.	0.12 billion
	Total	<u>\$ 0.52 billion</u>

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